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Post Hearing Information Pack of

申萬宏源集團股份有限公司
SHENWAN HONGYUAN GROUP CO., LTD.

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

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申萬宏源集團股份有限公司
SHENWAN HONGYUAN GROUP CO., LTD.

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

Number of [REDACTED] under the [REDACTED]	**:**	**[REDACTED] H Shares (subject to the [REDACTED])**
Number of Hong Kong [REDACTED]	**:**	**[REDACTED] H Shares (subject to adjustment)**
Number of International [REDACTED]	**:**	**[REDACTED] H Shares (subject to adjustment and the [REDACTED])**
Maximum [REDACTED]	**:**	**HK$[REDACTED] per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**RMB1.00 per H Share**
Stock code	**:**	**[REDACTED]**

Joint Sponsors

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Applicants for **[REDACTED]** are required to pay, on application, the maximum **[REDACTED]** of HK$**[REDACTED]** for each **[REDACTED]** together with a brokerage fee of 1.0%, a SFC transaction levy of 0.0027% and a Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the **[REDACTED]** as finally determined is less than HK$**[REDACTED]**.

The [REDACTED], on behalf of the [REDACTED], and with our consent may, where considered appropriate, reduce the number of [REDACTED] and/or the indicative [REDACTED] range below that is stated in this document (which is HK$[REDACTED] to HK$[REDACTED]) at any time prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, notices of the reduction in the number of [REDACTED] and/or the indicative [REDACTED] range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. Such notices will also be available on the website of our Company at www.swhygh.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in "Structure of the [REDACTED]" and "How to Apply for the [REDACTED]" in this document.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in "Risk Factors," "Appendix IV—Summary of Legal and Regulatory Matters" and "Appendix V—Summary of Articles of Association" to this document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See "[REDACTED]—[REDACTED] Arrangements and Expenses—[REDACTED]—Grounds for Termination."

We are not, and do not intend to be, registered under the US Investment Company Act. The **[REDACTED]** have not been, and will not be, registered under the US Securities Act or any other applicable law of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, US Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable US state securities laws. Accordingly, the **[REDACTED]** are only being offered and sold (i) to persons in the United States or to, or for the account or benefit of, US Persons outside the United States, in each case that are both "Qualified Institutional Buyers" and "Qualified Purchasers" in transactions exempt from or not subject to the registration requirements of (x) the US Securities Act in reliance on Rule 144A and (y) the US Investment Company Act in reliance on Section 3(c)(7) of that act; or (ii) outside the United States in offshore transactions in reliance on Regulation S to investors that are not (x) US Persons and (y) persons acquiring for the account or benefit of US Persons.

EXPECTED TIMETABLE[(1)]

[REDACTED]

EXPECTED TIMETABLE[(1)]

[REDACTED]

CONTENTS

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You should rely only on the information contained in this document and the **[REDACTED]** *Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not included in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *any of our or their respective directors or advisors, or any other person or party involved in the* **[REDACTED]**. *Information contained on our website, located at http://www.swhygh.com, does not form part of this document.*

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read this document in its entirety before you decide to invest in the **[REDACTED]**.

There are risks associated with any investment in the **[REDACTED]**. *We set out some of the particular risks in investing in the* **[REDACTED]** *in "Risk Factors" beginning on page 30 of this document. You should read that section carefully before you decide to invest in the* **[REDACTED]**.

OVERVIEW

We are a leading investment holding group focused on securities businesses in China. We are committed to providing diverse financial products and services to clients, and have established a longstanding leading position across multiple business lines in the PRC securities industry with quality growth. Among all securities firms in China, our net assets as of December 31, 2018 ranked seventh, and our revenue and net profits in 2018 ranked fifth and seventh, respectively, under the PRC GAAP. In 2018, our weighted average return on equity under the PRC GAAP ranked third among the top ten securities firms in China by net assets as of December 31, 2018.

In January 2015, we emerged from the merger between Shenyin & Wanguo Securities and Hong Yuan Securities, which was the largest merger in the PRC securities industry at that time, according to Dealogic. Our corporate structure is characterized by an investment parent company, Shenwan Hongyuan Group, and a subsidiary securities firm, Shenwan Hongyuan Securities. We provide comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management. Our principal business lines are:

Enterprise Finance		Personal Finance	Institutional Services and Trading	Investment Management
Investment Banking	**Principal Investment**			
• Equity financing • Debt financing • Financial advisory	• Equity investment • Debt investment • Other investment	• Securities and futures brokerage • Margin financing and securities lending • Stock-backed lending • Sales of financial products	• Prime brokerage • Research • Proprietary trading	• Asset management • Mutual fund management • Private equity fund management

- ***Enterprise finance:*** our enterprise finance business provides investment banking and principal investment services to our corporate clients. In our investment banking business, we provide equity underwriting and sponsorship, debt underwriting and financial advisory services. In addition, we engage in equity investment in unlisted companies and debt investment primarily through various financial instruments;
- ***Personal finance:*** our personal finance business serves the comprehensive financial needs of individuals and non-professional institutional clients. We provide services such as securities and futures brokerage, margin financing and securities lending, stock-backed lending, sales of financial products and investment advisory through our extensive online and offline channels;

- ***Institutional services and trading:*** our institutional services include prime brokerage and research services for professional institutional clients. We also engage in the trading of FICC, equity and equity-linked securities with our own funds or as a counterparty to institutional clients. Based on our trading capabilities, we offer sales, market-making, hedging and OTC derivatives services to institutional clients; and
- ***Investment management:*** our investment management business consists of asset management, mutual fund management and private equity fund management services.

The following table sets forth our segment revenue and other income in absolute amount and as a percentage of total revenue and other income, as well as the segment margin (which is calculated as the segment profit before income tax divided by the segment revenue and other income) of each segment before intersegment eliminations for the years indicated:

	Year ended December 31,								
	2016			2017			2018		
	Amount	Percentage of Total	Segment Margin	Amount	Percentage of Total	Segment Margin	Amount	Percentage of Total	Segment Margin
	(RMB in millions, except for percentages)								
Enterprise finance	3,405.7	15.7%	51.6%	2,838.1	13.6%	49.0%	2,166.2	9.0%	41.7%
Personal finance	12,586.8	57.9%	26.7%	11,549.7	55.2%	27.5%	11,137.7	46.1%	16.2%
Institutional services and trading	3,102.8	14.3%	12.8%	4,487.4	21.4%	18.2%	8,864.0	36.8%	18.9%
—Proprietary trading	1,798.9	8.3%	(11.9)%	3,315.0	15.8%	8.0%	7,727.3	32.1%	17.4%
Investment Management	2,623.6	12.1%	33.2%	2,049.4	9.8%	26.2%	1,941.7	8.1%	41.5%
Total	**21,718.9**	**100.0%**		**20,924.6**	**100.0%**		**24,109.6**	**100.0%**	

The year-on-year decreases in segment revenue and other income of our enterprise finance business during the Track Record Period were primarily due to the reduced number of completed A-share IPOs in the market in 2018 and the long cycle of our equity underwriting projects in 2018 as compared to 2017, and a contraction of the overall market for the debt underwriting business in 2017 as compared to 2016. The year-on-year increases in segment revenue and other income of our institutional services and trading business during the Track Record Period were primarily due to increases in net investment gains from our fixed-income trading as a result of a substantial expansion of our fixed-income portfolio. The negative segment margin of our proprietary trading business in 2016 was mainly attributable to our investment loss on equity trading, reflecting the unfavorable stock market conditions in China. For a detailed discussion of our segment results, see "Financial Information—Summary Segment Results."

In 2016, 2017 and 2018, our total revenue and other income was RMB21,718.9 million, RMB20,924.6 million and RMB24,109.6 million, respectively. As of December 31, 2016, 2017 and 2018, our total assets amounted to RMB275,489.3 million, RMB299,943.3 million and RMB347,725.0 million, respectively, and our total equity attributable to shareholders of the Company amounted to RMB52,304.8 million, RMB55,197.2 million and RMB69,399.3 million, respectively. We operate in both China and Hong Kong, and generated substantially all of our revenue from China during the Track Record Period. In 2016, 2017 and 2018, revenue from Shenwan Hongyuan (H.K.) and its subsidiaries was HK$416.5 million, HK$546.0 million and HK$519.6 million, respectively, representing 1.7%, 2.3% and 2.0% of our total revenue, respectively. Revenue from Shenwan Hongyuan (H.K.) and its subsidiaries increased by 31.1% in 2017 from 2016 but decreased slightly in 2018, mainly due to changes in revenue from the enterprise finance and personal finance segments of our Hong Kong business, reflecting volatile market conditions in Hong Kong.

Competition is intense in the PRC securities industry. As of December 31, 2018, there were 131 registered securities firms in China. According to the SAC, the top ten securities firms with the highest operating revenue among all PRC securities firms accounted for 49.1% of the industry's aggregate operating revenue in 2017. In addition, competition with other financial institutions also exists in various business lines. For instance, in terms of asset management business, securities firms compete with banks, fund management companies, insurance companies and trust companies. With the development of internet finance, securities firms also face competition from internet finance providers and emerging online wealth management and discount brokers. See "Industry Overview—The Securities Industry in China—Competitive Landscape of the PRC Securities Industry."

COMPETITIVE STRENGTHS

We believe the following strengths are crucial to our success and help us maintain our leading position ahead of our competitors:

- ***Strong market influence and brand:*** Since our inception in 1988, we have witnessed the development of the PRC securities industry and navigated through several market cycles and regulatory changes, cultivating a strong and longstanding brand in the PRC capital markets. In our operating history, we completed a series of mergers and acquisitions, including the combination and integration of Shenyin Securities, Wanguo Securities and Hong Yuan Securities. In over 30 years of corporate history, we have accumulated deep market insights and completed many pioneering transactions, leading the development of PRC capital markets.

- ***Leading position across businesses:*** Our corporate structure enables us to better provide one-stop capital markets services and capital support for our corporate clients at their different stages of development. In particular, we believe our experience and capability in serving emerging enterprises will help us maintain our leadership in the PRC capital markets and benefit us from the emerging opportunities arising from the proposed launch of the Science and Technology Innovation Board.

  According to the Wind Info, as of December 31, 2018, the total market value of client's securities under our custody was RMB2.4 trillion with a market share of 7.1%, ranking among the top three in the PRC securities industry. As of December 31, 2018, we had over 6.5 million personal finance clients, including over 19,000 high-net-worth clients and over 253,100 affluent clients. According to public disclosure by listed securities firms, we ranked fourth in the PRC securities industry in terms of number of securities branches as of December 31, 2017, and we operate the largest number of securities branches in Shanghai and Xinjiang among all securities firms in China.

  We focus on mainstream institutional investors. As of December 31, 2018, we had over 1,000 institutional clients. According to the SAC, in 2017, our revenue from trading units leasing service accounted for a market share of 4.7%, ranking fourth in the PRC securities industry.

  As of December 31, 2018, the aggregate AUM of our investment management business was RMB731.7 billion. In particular, as of the same date, the aggregate AUM of our securities firm asset management business was RMB674.0 billion, ranking fifth in the PRC securities industry, according to Wind Info.

- ***High quality growth:*** We are committed to maximizing shareholder value and have achieved industry-leading profitability. In 2016 and 2017, our weighted average return on equity under the PRC GAAP was 10.6% and 8.6%, respectively, ranking second and sixth, respectively, among the top ten securities firms in China by net assets as of December 31 of the respective year. Our weighted average return on equity under the PRC GAAP in 2018 ranked third among the top ten securities firms in China by net assets as of December 31, 2018.
- ***Forward-looking positioning:*** We believe our corporate structure and geographic footprint are advantages that position us favorably in the competition ahead.

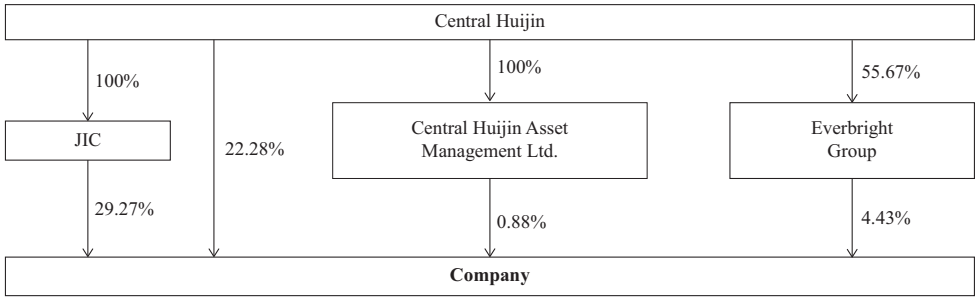
BUSINESS STRATEGIES

We aim to maintain our leading position in the PRC securities industry and become a world class financial service provider. We also aim to enhance the collaboration among our principal business lines to meet the increasingly diverse and global financial needs of our clients. Our specific business strategies include:

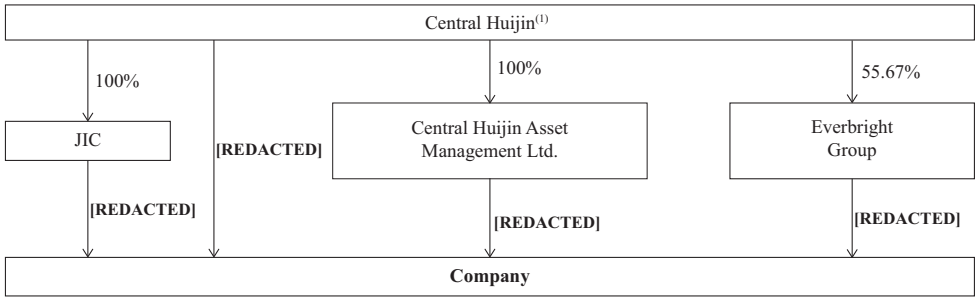
- ***Leading with enterprise finance business:*** In our enterprise finance business, we intend to focus on targeted clients and create greater synergies between principal investment and investment banking, building our enterprise finance business to become the driving force of our future growth.
- ***Upgrading personal finance business:*** In our personal finance business, we intend to improve clients' experience and loyalty by focusing on better serving high-net-worth clients, increasing our offering of comprehensive financial products and investing in fintech.
- ***Expanding institutional services and trading:*** In our institutional services and trading business, we aim to expand our institutional client base and substantially enhance our service and trading capabilities.
- ***Optimizing investment management business:*** In our investment management business, we intend to focus on asset allocation, fintech and cross-border asset allocation.

RELATIONSHIP WITH CENTRAL HUIJIN

The following chart sets forth our shareholding relationship with Central Huijin as of the Latest Practicable Date:



The following chart sets forth our shareholding relationship with Central Huijin immediately following the completion of the **[REDACTED]**, assuming that the **[REDACTED]** is not exercised:



(1) **[REDACTED]**

Central Huijin, in accordance with authorization by the State Council, makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC Government in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activity. It does not intervene in the day-to-day business operations of the firms in which it invests. See "Relationship with Central Huijin."

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables present our summary consolidated financial information as of and for the years ended December 31, 2016, 2017 and 2018. This summary has been derived from our consolidated financial information set forth in the Accountants' Report in Appendix I to this document. You should read this summary in conjunction with our consolidated financial information included in the Accountants' Report in Appendix I to this document, including the accompanying notes, and the information set forth in "Financial Information" of this document.

Summary Consolidated Statements of Profit or Loss

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Fee and commission income	11,554.1	8,748.5	6,419.3
Interest income	7,254.5	8,139.4	9,450.9
Net investment gains	2,672.4	3,749.6	5,644.6
Total revenue	**21,481.0**	**20,637.5**	**21,514.8**
Other income and gains	237.9	287.1	2,594.8
Total revenue and other income	**21,718.9**	**20,924.6**	**24,109.6**
Total expenses	**15,545.3**	**15,220.3**	**19,133.8**
Operating profit	**6,173.6**	**5,704.3**	**4,975.8**
Share of profit of associates and joint ventures	211.7	223.2	211.5
Profit before income tax	**6,385.3**	**5,927.5**	**5,187.3**
Income tax expense	857.0	1,201.7	939.5
Profit for the year	**5,528.3**	**4,725.8**	**4,247.8**
Attributable to:			
Shareholders of the Company	5,409.1	4,599.7	4,160.2
Non-controlling interests	119.2	126.1	87.6

Summary Consolidated Statements of Financial Position

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Total non-current assets	33,057.1	39,694.9	51,035.7
Total current assets	242,432.2	260,248.4	296,689.3
Total assets	**275,489.3**	**299,943.3**	**347,725.0**
Total non-current liabilities	63,082.7	61,037.1	72,313.5
Total current liabilities	158,333.4	181,900.4	204,215.6
Total liabilities	**221,416.1**	**242,937.5**	**276,529.1**
Net current assets	84,098.8	78,348.0	92,473.7
Total Equity	**54,073.2**	**57,005.8**	**71,195.9**

Summary Consolidated Statements of Cash Flow

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Operating cash flows before movements in working capital	11,435.6	10,750.0	11,138.1
Net cash generated from / (used in) operating activities	5,181.7	(5,995.6)	(9,397.0)
Net cash used in investing activities	(8,190.1)	(8,063.5)	(3,609.3)
Net cash generated from financing activities	10,009.5	12,759.8	25,797.1
Net increase / (decrease) in cash and cash equivalents	**7,001.1**	**(1,299.3)**	**12,790.8**
Cash and cash equivalents at the beginning of the year	21,276.0	28,288.4	26,991.1
Effect of foreign exchange rate changes	11.3	2.0	4.8
Cash and cash equivalents at the end of the year	**28,288.4**	**26,991.1**	**39,786.7**

Primarily due to our substantial operating cash outflow to support the expansion of our fixed-income portfolio in our proprietary trading business and the rapid growth of our stock-backed lending

business, we had net cash outflows from operating activities in 2017 and 2018. Despite this, we believe that we had strong ability to generate cash flows during the Track Record Period due to our operating profits and cash inflows arising from financing activities. Our operating cash flows before movements in working capital were positive in 2016, 2017 and 2018. In addition, our net current assets were RMB84,098.8 million, RMB78,348.0 million and RMB92,473.7 million as of December 31, 2016, 2017 and 2018, respectively, which also demonstrated our strong ability to generate working capital during the Track Record Period.

KEY FINANCIAL DATA

The following table sets forth certain key indicators of our profitability for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions except percentages)		
Profit for the year[(1)]	5,528.3	4,725.8	4,247.8
Net margin[(2)]	25.5%	22.6%	17.6%

(1) Profit for the year = operating profit + share of profit of associates and joint ventures - income tax expense.
(2) Net margin = profit for the year/total revenue and other income.

Non-IFRS Measures

The following table sets forth certain non-IFRS measures for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions except percentages)		
Operating profit[(1)]	6,173.6	5,704.3	4,975.8
Operating margin[(2)]	28.4%	27.3%	20.6%
Adjusted operating margin[(3)(5)]	42.1%	43.3%	33.0%
Adjusted net margin[(4)(5)]	37.7%	35.9%	28.2%

(1) Operating profit = total revenue and other income - total expenses.
(2) Operating margin = operating profit/total revenue and other income.
(3) Adjusted operating margin = operating profit/(total revenue and other income – fee and commission expenses and interest expenses). Adjusted operating margin is not a standard measure under IFRS, but is presented here because PRC securities firms present their operating revenue after deducting fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS.
(4) Adjusted net margin = profit for the year/(total revenue and other income – fee and commission expenses and interest expenses). Adjusted net margin is not a standard measure under IFRS, but is presented here because PRC securities firms present their operating revenue after deducting fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS.
(5) We believe that this non-IFRS measure provides a meaningful indicator of results of operations that is more comparable to other PRC listed securities firms due to different presentation requirements between PRC GAAP and IFRS. Though not a standard measure under IFRS, it is presented here because PRC securities companies typically present their total revenue and other income after deducting fee and commission expenses and interest expenses under the PRC GAAP, which is different from the practices for presenting the total revenue and other income under IFRS. Prospective investors should be aware that non-IFRS measures presented in this document may not be comparable with other similarly titled measures reported by other companies due to different calculation methods or assumptions.

The following tables set forth reconciliations of (i) operating profit to profit for the year, and (ii) total revenue and other income to the denominator of adjusted operating margin and adjusted net margin, which equals our total revenue and other income after deducting fee and commission expenses and interest expenses, for the years indicated:

	Years ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Operating profit	6,173.6	5,704.3	4,975.8
Add: Share of profit of associates and joint ventures	211.7	223.2	211.5
Less: Income tax expense	857.0	1,201.7	939.5
Profit for the year	5,528.3	4,725.8	4,247.8

	Years ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Total revenue and other income	21,718.9	20,924.6	24,109.6
Less: Fee and commission expenses	1,650.9	1,370.2	946.6
Less: Interest expenses	5,387.0	6,389.6	8,089.1
Denominator of adjusted operating margin and adjusted net margin	14,681.0	13,164.8	15,073.9

The decrease in our operating profit in 2018 from 2017 was primarily due to (i) a decrease in our income from equity underwriting as a result of the reduced number of completed A-share IPOs in the market, and the long cycle of our equity underwriting projects, (ii) decreases in the fee and commission income of our securities brokerage business and the interest income from our margin financing and securities lending business as a result of unfavorable market conditions, and (iii) an increase in our interest expenses as we increased our indebtedness. The decrease in our operating profit in 2017 from 2016 was primarily due to (i) a decrease in our income from debt financing business resulting from a contraction of the debt financing market in China, (ii) a decrease in the fee and commission income of our securities brokerage business as a result of cautious investor sentiment and increasing price competition over commission rates, which contributed to the decreases in our brokerage trading volume and brokerage commission rates, (iii) a decrease in the revenue of our asset management business as a result of a decrease in the average fee rate of our asset management schemes, and (iv) an increase in our interest expenses as we increased our indebtedness. See "Financial Information—Summary Segment Results" for a detailed discussion.

KEY OPERATING DATA

The following table sets forth certain key operating data of our principal business lines in China for the years or as of the dates indicated:

	Year ended or as of December 31,		
	2016	2017	2018
Amount underwritten for underwriting transactions in which we acted as a lead underwriter *(RMB in billions)*	144.9	62.5	72.1
Average fee rate for underwriting IPOs as a lead underwriter in China (%)	3.70	4.97	—
Average fee rate for underwriting follow-on offerings as a lead underwriter in China (%)	1.24	0.85	0.37
Average fee rate for underwriting debt offerings as a lead underwriter in China (%)	0.51	0.37	0.32
Outstanding balance of principal investment *(RMB in billions)*	7.5	10.8	13.5
Trading volume of our securities brokerage business *(RMB in billions)*	11,008.9	9,130.7	6,942.3
Average brokerage commission rate of stocks and funds *(bps)*	4.57	4.00	3.60
Balance of margin loans and securities lent *(RMB in billions)*	54.5	54.1	42.7
Sales of financial products *(RMB in billions)*	144.0	135.2	143.0
Average rate of returns of our proprietary trading business[(1)] *(%)*	3.6	5.0	5.6
Investment positions of our proprietary trading business *(RMB in billions)*	36.8	61.2	84.8
Net investment gains from our proprietary trading business *(RMB in millions)*	1,400.9	2,471.7	4,574.4
AUM of securities firm asset management business *(RMB in billions)*	686.6	841.6	674.0
Rate of return of our securities firm asset management business *(%)*	0.25	0.12	0.18

(1) Equals to our net investment gains from proprietary trading business excluding realized income from our contribution to the designated accounts at China Securities Finance, divided by the average balance of investment positions of proprietary trading business of Shenwan Hongyuan Securities at the beginning and the end of the year. For details on our contribution to the designated accounts at China Securities Finance, see "Risk Factors—Risks Relating to Our Business and Industry—Our response to government measures for stabilizing the PRC stock market may increase our exposure to market and other risks" and "Financial Information—Factors Affecting Our Results of Operations—Government-led Stabilization Measures."

The increase in our average fee rate for underwriting IPOs as a lead underwriter in China in 2017 primarily reflected an increased proportion of small and medium-sized IPOs underwritten by us with relatively higher fee rates. Declines in our average fee rate for follow-on offerings as a lead underwriter in China were due to increased industry competition and an increase in the large scale follow-on offerings underwritten by us with relatively low fee rates. Declines in our average fee rate for underwriting debt offerings as a lead underwriter in China were due to increased competition and unfavorable debt financing market. Increases in our outstanding balance of principal investment primarily reflected the growth of our principal investment business. Declines in the trading volume of our securities brokerage business and average brokerage commission rate of stocks and funds primarily reflected the volatile securities market conditions and increased competition among securities firms.

RISK MANAGEMENT, CAPITAL ADEQUACY AND LIQUIDITY

We attach great importance to our risk management. We have established an internal control mechanism and a comprehensive risk management system involving all staff throughout our entire business process, which strengthens our business development as well as compliance with regulatory requirements. Our risk management supports the healthy and stable development of our business. Shenwan Hongyuan Securities has received a "(Class A) AA" regulatory rating, the highest rating attained by any PRC securities firm to date, for eight consecutive years from 2011 to 2018 from the CSRC (granted in the middle of each calendar year). We seek the balance between risks and returns in our operation, achieve profits through taking certain risks as appropriate and actively manage the risks.

We have established a dynamic risk indicator monitoring mechanism to comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy. As of December 31, 2016, 2017 and 2018, we were in compliance with all capital adequacy and risk control indicator requirements. The minimum requirements set by the CSRC were 100% for both liquidity coverage ratio and net stable funding ratio. As of December 31, 2018, Shenwan Hongyuan Securities' Net Capital was RMB58.4 billion, and its liquidity coverage ratio and net stable funding ratio were 333.6% and 130.2%, respectively. As of December 31, 2018, Shenwan Hongyuan Financing Services' Net Capital was RMB1.3 billion, and its liquidity coverage ratio and net stable funding ratio were 729.3% and 489.7%, respectively. As of December 31, 2018, Shenwan Hongyuan Securities (Western)'s Net Capital was RMB6.8 billion, and its liquidity coverage ratio and net stable funding ratio were 1,633.5% and 346.1%, respectively, all of which were above the minimum requirements set by the CSRC. See "Financial Information—Net Capital and Other Regulatory Requirements" for more details.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

In the first quarter of 2019, we continued to grow our business in line with our strategy and our total revenue and other income increased compared to the same period in 2018, mainly due to the combination of the following factors:

- net investment gains from our proprietary trading business increased, mainly as a result of the increased scale and the rising value of fixed-income securities in our trading portfolios under the improved market conditions, and the rising value of equity securities in our trading portfolios under the improved market conditions;
- fee and commission income from our securities brokerage business increased, mainly as a result of an increase in our trading volume of stocks and funds to RMB2,476.8 billion in the first quarter of 2019 from RMB2,122.2 billion in the same period of 2018, reflecting a general improvement in investor sentiment in China;
- income from our underwriting business increased, mainly as a result of an increase in the number of debt offerings underwritten by us as a lead underwriter in China to 31 in the first quarter of 2019 from five in the same period in 2018 and an increase in our income from underwriting IPOs in China, both reflecting an overall improvement in the capital market financing raising activities in China; and
- our other income increased significantly, primarily due to a substantial increase in our income from commodity trading business, mainly as a result of the rapid growth of our basis trading conducted by our futures subsidiary since the second quarter of 2018. However, the cost of such business also increased significantly in line with the increased income, reflecting a low profit margin of our basis trading. Income from commodity trading business continued to account for a considerable portion of our total revenue and other income in the first quarter of 2019. See "Financial Information—Results of Operations—Other Income and Gains" and "Risk Factors—Risks Relating to Our Business and Industry—Our basis trading business is subject to significant market risk and credit risk."

We believe that our results of operations in 2019, especially profit for the year, will be affected mainly by (i) fluctuations in the trading volume of stocks and funds and the performance of the PRC securities market in general, which have a direct impact on our securities brokerage business, proprietary trading activities and investment banking business, and (ii) a potential increase in credit

risks and changes in PRC regulatory policies, which may influence our margin financing and securities lending as well as stock-backed lending businesses.

On March 21, 2019, our shareholders approved our plan to distribute a cash dividend of RMB1,126.8 million (tax included) to the holders of our A Shares. We expect to pay this dividend after the **[REDACTED]** but before May 21, 2019 with our available cash resources.

In January 2019, Shenwan Hongyuan Securities issued one tranche of corporate bonds due 2022 in China, with a principal amount of RMB2.2 billion and a fixed interest rate of 3.55%. In March 2019, Shenwan Hongyuan Securities issued one tranche of corporate bonds due 2022 in China, with a principal amount of RMB6.2 billion and a fixed interest rate of 3.68%. In addition, on January 22, 2019, Shenwan Hongyuan Securities obtained approval from the PBOC to issue short-term financing bills with an outstanding balance not exceeding RMB19.1 billion, which will be issued by tranches based on market conditions and our working capital needs.

In January 2019, our shareholders approved the issue of corporate bonds by our Company in China, with a principal amount not exceeding RMB10.0 billion. The proposed use of proceeds of such corporate bonds is to replenish our working capital or refinance existing indebtedness. In March 2019, our Company issued one tranche of corporate bonds due 2022, with a principal amount of RMB1.0 billion and a fixed interest rate of 4.18%. On or around April 12, 2019, our Company is expected to complete the issue of another tranche of corporate bonds with a principal amount of up to RMB3.2 billion.

In addition, we are required by the CSRC to announce selected unconsolidated unaudited monthly operating revenue and net profit and month-end net assets of our three securities subsidiaries, namely, Shenwan Hongyuan Securities, Shenwan Hongyuan Financing Services and Shenwan Hongyuan Securities (Western), on a monthly basis. On February 13, March 6 and April 8, 2019, we announced the monthly operating results of our three securities subsidiaries for January, February and March 2019, respectively, on the website of the Shenzhen Stock Exchange (www.szse.cn). See "Financial Information—Selected Unconsolidated Unaudited Monthly Results Subsequent to the Track Record Period" and "Risk Factors—Risks Relating to Our Business and Industry—We will release our 2019 first quarter consolidated financial results on the Shenzhen Stock Exchange no later than April 30, 2019, which is within several days after the **[REDACTED]**. If such quarterly consolidated financial results fail to meet the investor's expectation, the trading price of our H shares may be adversely affected" for further details.

Except as disclosed above, our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2018 (being the date of our latest audited financial statements).

USE OF [REDACTED]

Assuming an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** (being the mid-point of the **[REDACTED]** range of between HK$**[REDACTED]** and HK$**[REDACTED]** per **[REDACTED]**), we estimate that we will receive net **[REDACTED]** of approximately HK$**[REDACTED]** million from the **[REDACTED]** after deducting the **[REDACTED]** and other estimated expenses paid and payable by us in connection with the **[REDACTED]** and assuming that the **[REDACTED]** is not exercised. In line with our strategies, we intend to use our **[REDACTED]** from the **[REDACTED]** for the purposes and in the amounts set forth below:

- approximately **[REDACTED]**, or approximately HK$**[REDACTED]**, will be used to develop our securities businesses;

- approximately **[REDACTED]**, or approximately HK$**[REDACTED]**, will be used to make principal investments; and
- approximately **[REDACTED]**, or approximately HK$**[REDACTED]**, will be used to further develop our international business.

For further details, see "Future Plans and Use of **[REDACTED]**."

[REDACTED] STATISTICS

The statistics in the following table are based on the assumption that **[REDACTED]** is not exercised.

	Based on an [REDACTED] of HK$[REDACTED]	Based on an [REDACTED] of HK$[REDACTED]
Market capitalization of our H Shares(1)	HK$**[REDACTED]**	HK$**[REDACTED]**
Market capitalization of our A Shares and H Shares(2)	HK$**[REDACTED]**	HK$**[REDACTED]**
Unaudited **[REDACTED]** adjusted consolidated net tangible assets per Share(3)	HK$**[REDACTED]**	HK$**[REDACTED]**

(1) Market capitalization is based on **[REDACTED]** H Shares expected to be issued and outstanding following the **[REDACTED]**.

(2) Market capitalization is based on **[REDACTED]** H Shares expected to be issued and outstanding following the **[REDACTED]** and 22,535,944,560 A Shares in issue and outstanding following the **[REDACTED]** and an average closing price of RMB5.664 during the five trading days immediately preceding April 5, 2019.

(3) Unaudited **[REDACTED]** adjusted consolidated net tangible assets per Share is calculated after making adjustments referred to in "Appendix II—Unaudited **[REDACTED]** Financial Information."

DIVIDEND POLICY

After the completion of the **[REDACTED]**, we may distribute dividends in the form of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to approval in our Shareholders meeting. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important. The Articles of Association of our Company stipulate that our Company's accumulated profit distributed in cash in any three consecutive years shall not be less than 30% of the annual distributable profit realized in the three years. We declared a cash dividend of RMB1,126.8 million for the fiscal year of 2018 on March 21, 2019 and expect to pay this dividend to the holders of our A Shares after the **[REDACTED]**. Our remaining accumulated undistributed profits before the **[REDACTED]** would be shared among our existing and new shareholders. See "Financial Information—Dividend Policy."

RISK FACTORS

There are risks involved in our operations and in connection with the **[REDACTED]**, many of which are beyond our control. These risks can be categorized into: (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the **[REDACTED]**. We believe our major risks include:

- General economic, geopolitical and market conditions could materially and adversely affect our business.

- We are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may affect our business operations and prospects.
- A downgrade in our regulatory rating may adversely affect our business operations and prospects.
- The PRC securities industry is highly competitive.
- Our investment banking business is dependent on our ability to identify, execute, and complete projects successfully and is subject to various risks associated with underwriting, sponsoring and financial advisory services.
- We are exposed to risks relating to our principal investment.
- Our personal finance business is subject to various risks and there can be no assurance that our brokerage fee and commission income and interest income can be sustained.
- Our business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, our debtors, clients and counterparties.
- We may be unable to liquidate client positions in our stock-backed lending business in a timely manner or at all.
- The fair value measurement of certain of our assets and liabilities is subject to significant uncertainties and risks and the fair value changes of such assets and liabilities may materially and adversely affect our results of operations.

For further information relating to these and other risks relating to an investment in our H Shares, see "Risk Factors."

REGULATORY NON-COMPLIANCE AND INSPECTIONS

We conduct our business mainly in China and Hong Kong and are, therefore, subject to the relevant regulations of the PRC and Hong Kong. During the Track Record Period, we and our employees have also been involved in certain non-compliance incidents that led to, or are likely to lead to, the deduction of our regulatory points. Such non-compliance incidents were primarily related to our due diligence work in IPO and NEEQ listing recommendation projects, discretionary trading activities as well as online promotion activities. In addition, we may be subject to inspections and examinations by the CSRC, PBOC, the SFC and other regulatory agencies, which may reveal certain deficiencies with respect to our business operations, risk management and internal controls, such as client identification verification and anti-money laundering. The non-compliance incidents and deficiencies revealed in these regulatory inspections and examinations during the Track Record Period did not have a material adverse effect on our regulatory rating from the CSRC, which remained "(Class A) AA" (the highest rating attained by a PRC securities firm to date). See "Business—Laws and Regulations."

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, **[REDACTED]** and other fees incurred in connection with the **[REDACTED]**. We estimate that our **[REDACTED]** expenses will be approximately RMB**[REDACTED]** (assuming an **[REDACTED]** of HK$**[REDACTED]** per H Share (being the mid-point of the indicative **[REDACTED]** range) and no exercise of the **[REDACTED]**), of which approximately RMB**[REDACTED]** is directly attributable to the issue of our H Shares to the public and will be capitalized and amortized, and approximately RMB**[REDACTED]** is expected to be expensed in 2019. Our Directors do not expect such expenses to materially impact our results of operations in 2019.

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

"A Share(s)"	domestic shares of our 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 Shenzhen Stock Exchange
"affluent client(s)"	client(s) with average daily assets of no less than RMB500,000 and less than RMB5.0 million, or with an annual revenue contribution of no less than RMB20,000

[REDACTED]

"Articles of Association" or "Articles"	the articles of association of our Company, as amended, which shall become effective on the **[REDACTED]**, a summary of which is set out in Appendix V to this document
"average daily asset"	the total balance of a client's account on all trading days for the consecutive 12 months divided by the total number of trading days during the period
"Board" or "Board of Directors"	the Board of Directors of our Company
"Board of Supervisors"	the Board of Supervisors of our Company
"Business day" or "business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

"Central Huijin"	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), a company with limited liability incorporated in China on December 16, 2003 and ultimately owned by the PRC Government, which is the Controlling Shareholder of our Company
"China" or "PRC"	the People's Republic of China, excluding, only for the purpose of this document, Hong Kong, Macau and Taiwan
"China Securities Finance"	China Securities Finance Corporation Limited (中國證券金融股份有限公司), a joint stock company established under the direction of the State Council to provide, among other functions, margin and securities refinancing services to support the margin financing and securities lending businesses of PRC securities firms
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32), as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Cap. 622), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Shenwan Hongyuan Group Co., Ltd. (申萬宏源集團股份有限公司), a joint stock company incorporated under the laws of the PRC, the A Shares of which are listed on the Shenzhen Stock Exchange (stock code: 000166.SZ) and, if the context requires, includes its predecessor. See "History, Development and Corporate Structure"
"Company Law" or "PRC Company Law"	Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on October 26, 2018 to take effect on October 26, 2018
"Controlling Shareholder"	Central Huijin
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	director(s) of our Company
"EIT Law"	Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得税法), as amended, supplemented or otherwise modified from time to time

"Everbright Group"	China Everbright Group Ltd. (中國光大集團股份公司), a state-owned company incorporated in China on November 20, 1990. As of the Latest Practicable Date, the Everbright Group directly held 4.43% of the total issued share capital of our Company
"Exchange Participant(s)"	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
"GDP"	gross domestic product

[REDACTED]

"Group", "our Group", "Shenwan Hongyuan Group", "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
"H Share(s)"	overseas listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
"H Share Registrar"	**[REDACTED]**
"high-net-worth client(s)"	client(s) with average daily assets of no less than RMB5.0 million, or with annual revenue contribution of no less than RMB50,000
"HK$" or "HK dollars"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

[REDACTED]

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

[REDACTED]

"Hong Yuan Securities"	Hong Yuan Securities Co., Ltd. (宏源證券股份有限公司) (previously known as Xinjiang Hongyuan Trust and Investment Co., Ltd. (新疆宏源信託投資股份有限公司) ("**Hongyuan Trust**")), one of our predecessors, incorporated in China on May 25, 1993
"Hongyuan Futures"	Hongyuan Futures Co., Ltd. (宏源期貨有限公司), a limited liability company incorporated in China on May 2, 1995, a wholly owned subsidiary of the Company
"Hongyuan Huifu"	Hongyuan Huifu Capital Co., Ltd. (宏源匯富創業投資有限公司), a limited liability company incorporated in China on March 19, 2010, a wholly-owned subsidiary of the Company
"Hongyuan Huizhi"	Hongyuan Huizhi Investment Co., Ltd. (宏源匯智投資有限公司), a limited liability company incorporated in China on March 27, 2012, a wholly-owned subsidiary of the Company
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International

	Accounting Standards and interpretation issued by the International Accounting Standards Board
"Independent Third Party(ies)"	party(ies) not connected with us within the meaning of the Hong Kong Listing Rules as far as our Directors are aware after having made all reasonable enquiries

[REDACTED]

"JIC"	China Jianyin Investment Ltd. (中國建銀投資有限責任公司), a company with limited liability incorporated in China, which directly held 29.27% of the total issued share capital of our Company as of the Latest Practicable Date

[REDACTED]

[REDACTED]

"Joint Sponsors"	Shenwan Hongyuan Capital (H.K.) Limited, Goldman Sachs (Asia) L.L.C., ICBC International Capital Limited and ABCI Capital Limited
"Latest Practicable Date"	April 4, 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication

[REDACTED]

"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
	[REDACTED]
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from, and operated in parallel with, the Growth Enterprise Market of the Stock Exchange
"Mandatory Provisions"	the "Mandatory Provisions for Articles of Association of Companies to be Listed Overseas" (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in China to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
"Ministry of Finance" or "MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"National Bureau of Statistics"	the National Bureau of Statistics of the PRC (國家統計局)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會)
"non-professional institutional clients"	institutional clients whose main businesses are not investment or trading in the capital market
"NPC"	the National People's Congress of the People's Republic of China (中華人民共和國全國人民代表大會)
	[REDACTED]

[REDACTED]

"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC GAAP"	generally accepted accounting principles of the PRC
"PRC Government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities

[REDACTED]

"province"	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
"QIB" or "Qualified Institutional Buyer"	a qualified institutional buyer within the meaning of Rule 144A under the US Securities Act
"QP" or "Qualified Purchaser"	a qualified purchaser, as defined in Section 2(a)(51) of the US Investment Company Act and the rules and regulations thereunder
"Regulation S"	Regulation S under the US Securities Act
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act

"SAC"	the Securities Association of China (中國證券業協會)
"SAFE"	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
"SAT"	the State Administration of Taxation of the PRC (國家税務總局)
"Securities and Futures Ordinance" or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Securities Law"	the Securities Law of the People's Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"Shanghai Jiushi"	Shanghai Jiushi (Group) Co., Ltd. (上海久事（集團）有限公司), a company with limited liability incorporated in China on December 12, 1987, which directly held 5.38% of the Shares of our Company as of the Latest Practicable Date
"Share(s)"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Shareholders(s)"	holder(s) of the Share(s)
"Shenwan Futures"	Shenyin & Wanguo Futures Co., Ltd. (申銀萬國期貨有限公司), a limited liability company incorporated in China on January 7, 1993, in which a 97.25% equity interest was held by the Company as of the Latest Practicable Date
"Shenwan Hongyuan (H.K.)"	Shenwan Hongyuan (H.K.) Limited (申萬宏源(香港)有限公司), a limited liability company incorporated in Hong Kong on August 18, 1972, a non wholly-owned subsidiary of our Company, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 218.HK)
"Shenwan Hongyuan (International)"	Shenwan Hongyuan (International) Holdings Limited (申萬宏源(國際)集團有限公司), a limited liability company incorporated in Hong Kong on October 29, 1992, a wholly-owned subsidiary of our Company
"Shenwan Hongyuan Financing Services"	Shenwan Hongyuan Financing Services Co., Ltd. (申萬宏源證券承銷保薦有限責任公司), a limited liability company incorporated in China on January 20, 2015, a wholly-owned subsidiary of the Company

"Shenwan Hongyuan Industrial Investment"	Shenwan Hongyuan Industrial Investment Management Company Limited (申萬宏源產業投資管理有限責任公司), a limited liability company incorporated in China on January 21, 2015, a wholly-owned subsidiary of the Company
"Shenwan Hongyuan Securities (Western)"	Shenwan Hongyuan Securities (Western) Co., Ltd. (申萬宏源西部證券有限公司), a limited liability company incorporated in China on January 20, 2015, a wholly-owned subsidiary of the Company
"Shenwan Hongyuan Securities"	Shenwan Hongyuan Securities Co., Ltd. (申萬宏源證券有限公司), a company with limited liability incorporated in China on January 16, 2015 and a wholly-owned subsidiary of our Company
"Shenyin Securities"	Shanghai Shenyin Securities Co., Ltd. (上海申銀證券有限公司), a company with limited liability incorporated in China on July 1, 1988, which was subsequently merged with Wanguo Securities
"Shenyin & Wanguo Securities"	Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司), one of our predecessors, established through the merger of Shenyin Securities and Wanguo Securities on September 16, 1996
"SOE(s)"	state-owned enterprise(s)
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994
	[REDACTED]
"State Council"	State Council of the People's Republic of China (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"Supervisor(s)"	member(s) of our Board of Supervisors
"SWS MU"	SWS MU Fund Management Co., Ltd. (申萬菱信基金管理有限公司), a limited liability company incorporated in China on January 15, 2004, in which a 67% equity interest was held by the Company as of the Latest Practicable Date
"SWS Research"	SWS Research Co., Ltd. (上海申銀萬國證券研究所有限公司), a limited liability company incorporated in China on October 16, 1992, in which a 90% equity interest was held by the Company as of the Latest Practicable Date

"Track Record Period"	the three years ended December 31, 2016, 2017 and 2018

[REDACTED]

"US Investment Company Act"	the United States Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder
"US Person"	a US person, as defined in Rule 902 of Regulation S under the US Securities Act
"US Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"US" or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"Wanguo Securities"	Shanghai Wanguo Securities Co., Ltd. (上海萬國證券公司), a company with limited liability incorporated in China on July 15, 1988, which was subsequently merged with Shenyin Securities

[REDACTED]

"Wind Info"	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a company with limited liability incorporated in China in 1994 and a service provider of financial data, information and software, being an Independent Third Party of the Company

[REDACTED]

"%"	per cent.

In this document, the terms "associate," "close associate," "connected person," "core connected person," "connected transaction," "controlling shareholder" and "substantial

shareholder" shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this document in both the Chinese and English languages and, in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"A share(s)"	the shares that are traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in Renminbi
"ABS"	asset-backed securities
"AUM"	the amount of assets under management
"average brokerage commission rate"	the ratio of the net fee and commission income from our stocks and funds brokerage business divided by our brokerage trading volume for stocks and funds
"B share(s)"	foreign invested shares that are traded on the Shanghai Stock Exchange in US dollars or the Shenzhen Stock Exchange in HK dollars
"bps"	basis points
"CAGR"	compound annual growth rate
"ChiNext Board"	the growth enterprise board launched by the Shenzhen Stock Exchange
"collateral coverage ratio"	for stock-backed lending business, it refers to the ratio of the fair value of initial and supplement collateral, less any collateral released, plus interests and dividends received, divided by the amount payable by the borrower
"collective asset management scheme"	an asset management contract entered into with multiple clients by an asset manager in China, pursuant to which the clients' assets are placed in the custody of commercial banks qualified to hold client transaction settlement funds or in other institutions approved by the CSRC, and the asset manager provides asset management services to the clients through designated accounts
"CSI 300 Index"	a capitalization-weighted stock market index compiled by the China Securities Index Co., Ltd. to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
"ETFs"	exchange-traded funds
"FICC"	fixed income, currencies and commodities
"FOF"	fund of funds

"H share(s)"	overseas-listed shares of PRC companies that are traded on the Hong Kong Stock Exchange
"IPO"	initial public offering
"IT"	information technology
"M&A"	mergers and acquisitions
"maintenance margin ratio"	for the margin financing and securities lending business, it refers to the ratio of the fair value of the collateral, including cash and securities in the margin accounts of the clients, to the total amount of receivables from the clients, including margin loan balance, market value of securities lent and accrued interest and fees
"margin financing and securities lending"	provision of collateral by investors to securities firms who are qualified for conducting margin financing and securities lending business to borrow funds for securities purchases (margin financing) or to borrow and sell securities (securities lending)
"NEEQ"	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"Net Capital"	equals net assets minus risk-adjusted financial assets minus other risk-adjusted assets and risk-adjusted contingent liability plus or minus capital from other adjustments recognized or approved by the CSRC
"OTC"	over-the-counter
"QDII"	Qualified Domestic Institutional Investors (合格境內機構投資者) as approved by the CSRC
"QFII"	Qualified Foreign Institutional Investors (合格境外機構投資者) as approved by the CSRC
"RQFII"	RMB Qualified Foreign Institutional Investors (人民幣合格境外機構投資者)
"Science and Technology Innovation Board"	the Science and Technology Innovation Board to be launched by the Shanghai Stock Exchange
"Shanghai-Hong Kong Stock Connect"	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, the Shanghai Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for mutual market access between Hong Kong and Shanghai

"Shenzhen-Hong Kong Stock Connect"	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, the Shenzhen Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for mutual market access between Hong Kong and Shenzhen
"single asset management scheme"	a single asset management contract entered into by an asset manager in China, pursuant to which the asset manager provides asset management services to the client through accounts under the client's name
"SME Board"	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange
"specialized asset management scheme"	a specialized asset management contract entered into with a single client by an asset manager in China, pursuant to which the asset manager manages a client's certain assets for specific purpose
"sponsor representative"	a professional representative qualified in China to sponsor and execute the offering and listing of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities of the PRC (證券發行上市保薦業務管理辦法)
"SSE 50 ETF option"	an option contract invested in the Shanghai Stock Exchange 50 Index, which is adjusted once every six months, or according to special circumstances
"stock-backed lending"	a transaction in which a securities firm provides financing to qualified clients who pledge their stocks as collateral
"structured notes"	marketable securities issued by securities firms with the payment of principal and return linked to specific underlying assets
"VaR"	value at risk

FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. All statements other than statements of historical facts contained in this document, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- general political and economic conditions, including those related to the PRC;
- our business prospects and our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- various business opportunities that we may pursue; and
- capital market developments, changes in the global economic conditions and material volatility in the global financial markets.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this document. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in China and most of our operations are conducted in China, which is governed by a legal and regulatory environment that may differ significantly from that of other countries. For more information concerning the PRC and certain related matters discussed below, see "Regulatory Environment," "Appendix IV—Summary of Legal and Regulatory Matters" and "Appendix V—Summary of Articles of Association."

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

General economic, geopolitical and market conditions could materially and adversely affect our business.

Our business is highly dependent on economic and market conditions in China, as a substantial majority of our revenue is derived from the PRC securities markets. Like other businesses operating in the same industry, our business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in trading volume, and investor confidence. Our business is also subject to general economic and political conditions, such as macroeconomic and monetary policies of China, fiscal policies, macro-economic regulation policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability and cost of funding, and interest rates.

In the past, the results of operations of PRC securities firms, including us, were primarily affected by volatility in the PRC securities markets. For example, in 2015, the A-share market experienced significant fluctuations, especially from mid-June to the end of August. The CSI 300 Index fell by 43.3%, from 5,335.1 on June 12, 2015 to 3,025.7 on August 26, 2015. In response to this sudden and significant market decline, the PRC Government introduced a series of measures to stabilize the stock market and restore investor confidence. These measures had and will continue to have a significant impact on our business. See "—Our response to government measures for stabilizing the PRC stock market may increase our exposure to market and other risks."

Our business, financial condition and results of operations may be adversely affected by general economic and market conditions in many ways, including, among other things:

- Our investment banking business may be adversely affected by market conditions. Unfavorable economic and market conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of investment banking transactions, which may have a material and adverse effect on the revenue and profit of our investment banking business.
- Our revenue from principal investment business depends on the performance of our investment subjects, which may be materially and adversely affected by general economic conditions, market fluctuations and volatility.
- Our securities brokerage business depends on trading volumes and equity market performance to a certain degree. Unfavorable economic and market conditions can

adversely affect investor confidence and trading and investment activities, resulting in reduced brokerage fees and commission income.

- Our margin financing and securities lending and stock-backed lending may incur losses under unfavorable economic and market conditions. Client risk can increase significantly during economic downturns and we may be forced to liquidate the collaterals at prices below the amount lent, resulting in our losses.
- We hold various equity and fixed-income securities as part of our proprietary trading business. As a substantial portion of these financial instruments is marked to market, declines in fair values could directly impact our profit and/or shareholders' equity. Sudden declines and significant volatility in asset values may cause us to incur significant losses.
- Market volatility, tightened liquidity and unfavorable market conditions may reduce our AUM and affect the performance of the assets or funds we manage, which could adversely affect our ability to receive management fees or performance fees.

We are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may affect our business operations and prospects.

Most of our businesses are subject to extensive regulations. Regulatory authorities regulate our business activities by imposing capital requirements, determining the types of products and services we may offer, and limiting the types of securities we may invest in.

Failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may have a material and adverse effect on our business, reputation, financial condition and results of operations. During the Track Record Period and up to the Latest Practicable Date, we or our employees had been involved in certain non-compliance incidents and regulatory inspections, and received regulatory warnings or penalties from the relevant regulatory authorities. Such non-compliance incidents and deficiencies discovered in the regulatory inspections were primarily related to our due diligence work in IPO and NEEQ listing recommendation projects, discretionary trading activities, online promotion activities, client identification verification as well as anti-money laundering, which have resulted in reductions of 0.25, 2.25 and 1.25 regulatory points, respectively, in each of the appraisal periods of 2016, 2017 and 2018 (which start from May of the previous year to April of the current year) and are expected to result in a reduction of 2.0 regulatory points in the appraisal period of 2019. The non-compliance incidents and deficiencies revealed in these regulatory inspections and examinations have not had any material adverse effect on our regulatory rating from the CSRC, and the aggregate revenue generated from these non-compliance incidents, where applicable, was insignificant as compared to our total revenue and other income or profit for the year in each of 2016, 2017 and 2018. See "Business—Laws and Regulations—Regulatory Non-compliance." However, we cannot assure you that we will not be involved in any future non-compliance incidents which may materially and adversely affect our business, reputation, financial condition, results of operations or regulatory rating.

Moreover, the securities industry is highly regulated and relevant rules and regulations could be revised from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of currently existing rules and regulations, may directly impact our business strategies and prospects. In addition, changes in the rules

and regulations could result in limitations on the business lines that we may conduct, and modifications to our business practices or additional costs, which may adversely affect our ability to compete effectively with other institutions that are not affected in the same manner.

A downgrade in our regulatory rating may adversely affect our business operations and prospects.

Regulatory authorities in the jurisdictions where we operate, principally China and Hong Kong, conduct inspections, examinations and inquiries with respect to our compliance with relevant regulatory requirements. For example, securities firms in China, including Shenwan Hongyuan Securities, are subject to a regulatory rating regime promulgated by the CSRC. Under the regulatory rating regime, securities firms are classified into different classes and grades based on their risk management capabilities, market competitiveness and compliances, and they are subject to different risk management standards, risk capital reserve ratios and frequency of regulatory inspection, as well as approval processes for new business or business outlet. A regulatory rating downgrade may make a securities firm ineligible for conducting certain businesses or obtaining business permits or approvals for its businesses or cause it to be subject to a higher risk capital reserve or a higher payment ratio for the securities investor protection fund.

Shenwan Hongyuan Securities has received a "(Class A) AA" regulatory rating from the CSRC. For details of the factors taken into account by the CSRC in assigning regulatory ratings, see "Regulatory Environment." However, there is no assurance that the CSRC will not lower our regulatory rating in the future, which may make us unqualified for conducting certain new businesses or obtaining business permits or approvals for our businesses, or cause us to be subject to a higher risk capital reserve or a higher ratio for our securities investor protection fund.

The PRC securities industry is highly competitive.

The PRC securities industry is highly competitive, and we face intense competition in all business lines.

For our investment banking business, we compete primarily with other investment banks, commercial banks as well as trust companies in terms of brand recognition, marketing and distribution capability, service quality, financial strength and pricing. Intense competition may result in lower underwriting fees, sponsorship fees and advisory fees.

For our personal finance business, we compete primarily with other PRC securities firms and discount brokers in terms of pricing and the range of products and services offered. As of December 31, 2018, there were 131 registered securities firms in China, and intense price competition had led to a reduction in our commission rates for securities brokerage in recent years. See "—Our personal finance business is subject to various risks and there can be no assurance that our brokerage fee and commission income and interest income can be sustained." We are also under the pressure of maintaining and expanding our market share. As of December 31, 2018, we had over 6.5 million personal finance clients. If we are unable to address the needs of our clients by maintaining high-quality services, maintaining or reducing our fees, providing a more convenient and user-friendly trading experience or continuing to introduce new products, we may lose our existing clients to competitors. As a result, our business, financial condition and results of operations may be adversely affected.

For our institutional services and trading business, we compete primarily with other PRC securities firms and other financial institutions in terms of capabilities of risk management and research, providing professional institutional services, as well as capital sufficiency.

For our investment management business, we compete primarily with other securities firms, fund managers, commercial banks, insurance companies, trust companies and private investment fund managers in China in terms of the range of products and services offered, pricing and quality of client service.

Our competitors may have certain competitive advantages over us, including greater financial resources, stronger brand recognition, broader product and service offerings, a branch network with wider geographic coverage and more extensive experience. We are also under pressure of maintaining our client base. If we are unable to address the needs of our clients by maintaining high-quality services, continuing product innovation and providing value-added services, or if we otherwise fail to meet our clients' demands or expectations, we may lose our existing clients to competitors and/or fail to attract new clients. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Meanwhile, with China taking steps to open up its financial industry and ease limits on foreign stakes in securities firms, new competitors may enter the securities industry, which could further intensify the market competition. As a result, our business, financial condition and results of operations may be adversely affected.

Our investment banking business is dependent on our ability to identify, execute, and complete projects successfully and is subject to various risks associated with underwriting, sponsoring and financial advisory services.

We are subject to certain risks in our investment banking business, which are primarily related to the uncertainties in regulatory policies and approvals. The primary offering of securities in China, especially IPOs, follow-on offerings and certain types of M&A transactions of listed companies, are subject to a merit-based review and approval process conducted by various regulatory authorities. The result and timing of these reviews are beyond our control and may cause substantial delays to, or the termination of, securities offerings underwritten by us or M&A transactions advised by us. There can be no assurance that regulatory approvals on securities offerings and M&A transactions will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings underwritten or sponsored by us or M&A transactions advised by us could harm our reputation, erode client confidence and reduce our underwriting, sponsorship and advisory fee income, as we receive most of our fees only after the successful completion of a securities offering or an M&A transaction. In addition, since we may be required by our client to underwrite securities offerings on a hard-underwriting basis, we would be required to purchase all of the unsubscribed portion on our own account, which may materially and adversely affect our liquidity, and we may even incur losses.

Moreover, relevant rules and regulations could be changed from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of existing rules and regulations, may bring out new products or services or result in limitations on certain investment banking activities, which may adversely affect our ability to effectively compete with other financial institutions that are not affected in the same way. We may be unable to provide new products and services in a timely manner, or face difficulties in providing new

products and services, or our competitive activities may be subject to limitations, and we may not maintain our current market share, resulting in reputational harm and income loss.

In addition, when acting as a sponsor in securities offerings, an underwriter in debt offerings, a financial advisor for M&A transactions or when conducting NEEQ business, we may be subject to regulatory sanctions, fines, penalties or other disciplinary actions or other legal liabilities for inadequate supervision, inadequate due diligence, fraud or misconduct committed by issuers, their agents, other sponsors or ourselves, misstatements or omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting or advisory process. Moreover, according to the rules in China, if the document of an IPO sponsored by us contains fraudulent records, misstatements or material omissions which cause losses to investors, we may be required to compensate investors for their losses resulting from false disclosures in the IPO before the issuer's compensation liability can be determined. Also, we may be responsible for investors' losses if the materials related to securities offerings underwritten, sponsored or recommended by us contain fraudulent records, misstatements or material omissions. The due diligence that we conduct in the course of our investment banking business operations is inherently limited and may not reveal all facts that may be relevant in connection with the businesses on which we conducted due diligence.

The performance of our investment banking business may also depend on market conditions. Adverse market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by us and M&A transactions advised by us, or may even incur losses due to securities offerings on an underwritten basis. Unfavorable market conditions may also result in fewer financing and M&A activities, which may in turn materially and adversely affect our revenue from the investment banking business.

We are exposed to risks relating to our principal investment.

We are exposed to credit risk arising from our debt investments. Debt investments in our principal investment business are made through various financial instruments, primarily asset management schemes and trust schemes. As of December 31, 2016, 2017 and 2018, the outstanding balance of debt investment in our principal investment business was RMB5,268.4 million, RMB8,628.7 million and RMB11,158.9 million, respectively, representing 70.1%, 80.2% and 82.5%, respectively, of the total outstanding balance of our principal investment. The income generated from these investments is generally fixed or determinable. We may not be able to recover the principal of and interest on these investments if the financial condition of the ultimate borrowers materially deteriorates. Also, we may not have direct recourse to the ultimate borrowers in the underlying transactions, in which case we can only rely on our rights under the relevant contracts to require the counterparties, such as asset managers or trust companies, to seek indemnity from the borrowers on our behalf. We may have to resort to legal actions to collect from the ultimate borrowers. See "Business—Laws and Regulations—Litigation." In addition, because these investments are generally not tradable, and there has not yet been an active trading market for such products, we generally hold them to maturity and are therefore exposed to the related liquidity risk.

We have made, and expect to continue to make, equity investments in unlisted companies. Contributing capital to these companies is risky, and we may lose some or all of the principal amount of our investments. In addition, we are subject to the risk that our portfolio companies may make business, financial or management decisions with which we do not agree or that the majority shareholders or the management of the company may take risks or otherwise act in a manner that does

not serve our interests. Our ability to dispose of our equity investments is dependent primarily on the equity capital markets. We may sometimes be forced to sell our equity investment at undesirable prices or defer sales, potentially for a considerable period of time.

In addition, we made equity investments in our associates and joint ventures. As of December 31, 2016, 2017 and 2018, the outstanding balance of our interest in associates and joint ventures was RMB973.6 million, RMB1,870.7 million and RMB2,399.1 million, respectively. We may experience financial losses due to the poor performance of our associates and joint ventures, which could materially and adversely affect our financial condition and results of operations. Also, our investments in associates and joint ventures are subject to liquidity risk, and even if profits attributable to us are reported in our results of operations under equity accounting method, we are unable to receive any cash inflow until we receive dividends from the relevant associates and joint ventures.

Our personal finance business is subject to various risks and there can be no assurance that our brokerage fee and commission income and interest income can be sustained.

Brokerage revenue represents a significant portion of our revenue. Our personal finance business is significantly affected by external factors, such as market conditions, regulatory policies, investor confidence and general economic conditions, all of which are beyond our control. For example, stock trading volumes in China experienced a significant decline in 2016. Accordingly, our fee and commission income from securities brokerage significantly decreased in 2016. There can be no assurance that such unstable economic and market conditions will not recur in the future.

Market competition is another key factor that affects our personal finance services. In light of the intensifying competition in the PRC securities market, we have lowered both our brokerage commission fee rate for brokerage business and interest fee rate for margin financing and securities lending in order to gain market share. In recent years, some of our competitors conducted services by launching online brokerage services, which has resulted in lower average brokerage commission rates. If an increasing number of securities brokers and Internet companies seek to enter and expand the online brokerage business, brokerage fees and commission rates in the industry may further decrease, which could adversely affect our price competitiveness.

In addition to our own asset management products and structured notes, we also distribute financial products developed by third-party financial institutions, such as commercial banks, mutual fund management companies and private investment management companies. As a third-party distributor, we are not liable for any investment loss or default directly derived from the third-party financial products we distribute to our clients. However, we may be subject to client complaints and possibly litigation which could have an adverse effect on our reputation and personal finance services business. In addition, certain of these third-party financial products may have complex structures and involve various risks, including credit risks, interest risks, liquidity risks and others. Our risk management policies and procedures may not be fully effective in identifying the risks of these financial products, and our sales employees may fail to disclose such risks to our personal finance clients, in which case our clients may invest in financial products that are too risky for their risk tolerance and investment preferences, and may suffer significant loss. This may subject us to client complaints and litigation risks. As a result, our reputation, client relationships, business and prospects may be materially and adversely affected.

Our business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, our debtors, clients and counterparties.

Our margin financing and securities lending and stock-backed lending businesses are subject to the risk that a client may fail to perform its payment obligations or that the value of collaterals held by us to secure the obligations might become inadequate. We also face credit risks in our fixed income trading and our role as a counterparty in derivatives contracts and other OTC transactions. Any material non-payment or non-performance by a client or counterparty could adversely affect our financial position, results of operations and cash flows. Although we review credit profiles of specific clients or counterparties who may default on payment obligations and specific industries that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to receive all relevant information with respect to the credit risks of our clients and counterparties. See "Risk Management—Our Major Risk Management Measures—Credit Risk Management."

In our margin financing and securities lending and stock-backed lending businesses, we may enforce the liquidation of collateral if our clients are unable to meet their obligations as scheduled, or if the maintenance margin ratios or collateral coverage ratios are lower than our minimum threshold due to fluctuations in market prices of the collateral and there is no additional collateral. In our futures and options brokerage transactions, we require our clients to maintain a certain balance in accounts for their futures and options trading. We conduct automatic valuations for clients' account balances on each trading day, and, in the event of an insufficient account balance, we require clients to replenish their account balance or liquidate their positions. Such mandatory liquidation mechanism may trigger disputes between clients and us, which may subject us to relevant expenses or litigation risks.

Our ability to carry out forced liquidation of client positions is affected by factors such as changes in regulatory policies, market volatilities and limitations on the sale of stocks. If the market price of securities which we hold as collateral decreases sharply for an extended period, the value of the collateral may fall below the value of our margin loans, or we may not be able to liquidate because of limitations on liquidation or the securities we hold as collateral are subject to a judicial freeze. Also see "—We may be unable to liquidate client positions in our stock-backed lending business in a timely manner or at all." In these cases, the funds we obtain by liquidating clients' positions cannot recover the amounts loaned, and thus we will incur losses.

In addition, we also conduct OTC trading with our clients as a counterparty to provide them with customized products or services. Because there is no exchange or clearing agent for these contracts, we will be subject to the credit risk of non-performance of the counterparty.

We may be unable to liquidate client positions in our stock-backed lending business in a timely manner or at all.

In our stock-backed lending business, our ability to carry out forced liquidation of client positions is affected by regulatory policies. According to the recent PRC regulations and rules governing the dispositions of shares held by a major shareholder (holding over 5% of the total share capital of a listed company), director, supervisor or a member of the senior management of a listed company in China, which became effective in May 2017, in any consecutive 90 days, a major shareholder cannot dispose of their shares on the open market exceeding 1% of the total share capital of the company or dispose of their shares by block trades exceeding 2% of the total share capital of the company. In addition, a securities firm in China which holds the shares of these relevant persons as

collateral for stock-backed lending is required to follow the foregoing disposition quota, among other things.

In our stock-backed lending business, most of our clients are major shareholders of listed companies in China and we normally hold their shares as collateral. Due to the recent disposition quota, if these clients are unable to meet their repayment obligations, or if the collateral coverage ratios are lower than our minimum threshold due to fluctuations in market prices of the collateral or otherwise, we may be unable to liquidate their stock positions in a timely manner or at all, which may subject us to material losses and materially and adversely affect our business, financial condition and results of operations. See "Business—Laws and Regulations—Litigation." In addition, fluctuations in our stock-backed lending business may affect the fair value of our financial assets under resale agreements, and may materially and adversely affect our financial condition and results of operations.

The fair value measurement of certain of our assets and liabilities is subject to significant uncertainties and risks and the fair value changes of such assets and liabilities may materially and adversely affect our results of operations.

In our proprietary trading business, we trade equity and fixed-income securities as well as derivatives products for our own account. Our equity and fixed-income securities are subject to market volatility and, therefore, the results of our proprietary trading activities generally correlate with the performance of the PRC securities markets. We use derivative instruments, such as stock index futures, to reduce the impact of price volatility on our stock trading. We also use interest rate swaps and treasury bond futures to hedge the interest rate exposure that arises from our fixed-income trading. However, the PRC derivatives market currently does not provide sufficient means for us to hedge against volatile trading markets, which makes it difficult for us to reduce our exposure to fluctuations in prices, and the derivatives that we use may not be as effective as anticipated for hedging purposes. In addition, derivatives contracts that we enter into expose us to the risks associated with these instruments and their underlying assets, which could result in substantial losses. The secondary market for derivatives is volatile and we may be inexperienced in managing new products which may arise in the future or trading derivative instruments.

The performance of our proprietary trading activities is determined by our investment decisions and judgments based on our assessment of existing and future market conditions. We closely monitor the market value and financial performance of our trading portfolio, and actively adjust such portfolio to allocate assets based on market conditions and internal risk management guidelines. However, our investment decisions involve the judgments, discretion and assumptions of relevant personnel. If our decision-making process fails to minimize losses effectively while capturing gains, or our forecasts do not conform to actual changes in market conditions, or if concentration risk, including market risk and credit risks from holding particular assets or asset classes materializes, our trading activities may not achieve the investment returns we anticipate, and we could suffer material losses, any of which could materially and adversely affect our business, financial condition and results of operations.

Certain classes of our financial assets are marked to market at fair value and through profit or loss. A decline in the value of such assets could result in substantial losses to us. The price fluctuations can be a result of changes in the financial market's assessment of the issuer's creditworthiness, delinquency and default rates and other factors, which could adversely affect our financial condition and results of operations. While we have internal policies and procedures to avoid such occurrences, these policies and procedures may not be fully effective. In addition, we may not have sufficient access to resources and

trading counterparties to effectively implement our risk mitigation strategies and techniques. If our trading position becomes overly concentrated in a limited set of assets, asset classes, or a limited number of third parties, or if we fail to effectively manage our exposure through our risk management policies and procedures, the volatility of any negative impact of adverse credit exposures could be increased, and, as a result, we may experience significant financial losses that could materially and adversely affect our business, financial condition and results of operations. For example, fluctuations in the market price of bonds in our reversed repurchase transactions under the FICC sales and trading business may affect the fair value of our financial assets under resale agreements. The unrealized fair value change of financial instruments at fair value through profit or loss in 2016, 2017 and 2018 was a loss of RMB943.9 million, a loss of RMB123.0 million and a gain of RMB73.0 million, respectively. The net realized gains from disposal of financial instruments at fair value through other comprehensive income in 2018 was RMB324.2 million. See note 6 of the Accountants' Report in Appendix I to this document. In addition, we had negative net change in fair value of equity investment at fair value through other comprehensive income of RMB1,440.7 million that would not be reclassified to profit or loss in 2018.

Our provisions for impairment losses may not be sufficient to cover the actual losses on our financial assets in the future.

We made provisions for impairment loss on various financial assets during the Track Record Period. For example, in our margin financing and securities lending business, our provisions for impairment loss was RMB108.7 million, RMB135.8 million and RMB84.3 million, respectively, as of December 31, 2016, 2017 and 2018. In our stock-backed lending business, our provisions for impairment loss was RMB29.9 million, RMB161.5 million and RMB613.5 million, respectively, as of December 31, 2016, 2017 and 2018.

We may also incur impairment losses for financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, available-for-sale financial assets, financial assets held under resale agreements, accounts receivable and other non-current assets, as well as other receivables and prepayments and margin accounts receivable. In 2018, we made provision for impairment losses of RMB23.2 million for financial assets measured at amortized cost, and RMB89.4 million for financial assets at fair value through other comprehensive income. In 2016, 2017 and 2018, we made provision for impairment losses of RMB26.9 million, RMB130.6 million and RMB463.0 million, respectively, for financial assets held under resale agreements, and RMB13.8 million, RMB33.1 million and RMB68.3 million, respectively, for accounts receivable and other non-current assets, and negative RMB24.8 million (as reversal), RMB22.4 million and RMB16.7 million, respectively, for other receivables and prepayments and margin accounts receivable. See note 13 of the Accountants' Report in Appendix I to this document. Our maximum credit risk exposure as of December 31, 2016, 2017 and 2018, without taking into account any collateral and other credit enhancements, was the carrying value of the relevant financial assets after the deduction of impairment provisions. See note 58(a)(i) of the Accountants' Report in Appendix I to this document.

We may have to make additional provisions for impairment losses in the future, and such provisions are subject to the uncertainties of accounting policies. In line with the IFRS 9, in determining impairment losses, our management is required to adopt an "expected credit loss" model where a loss event will no longer need to occur before an impairment allowance is recognized, causing expected acceleration and potentially greater amount of provision for any given amount of financial assets, where applicable. Under IFRS 9, our management is required to make robust estimation on expected credit losses and the point at which there is a significant increase in credit risk based on

available information that the management deems reasonable and applicable, all of which involve difficult judgment. Any of the above factors may reduce our profit, and materially and adversely affect our business, financial condition and results of operations.

Our basis trading business is subject to significant market risk and credit risk.

Our basis trading business is subject to market and counterparty risks, including that (i) actual price movements are different from our expectations and therefore our hedging or arbitrage activities fail to manage risks or capture gains, and (ii) our counterparty clients default under our contracts with them.

In basis trading, we study the commodity and futures markets and take advantage of hedging and arbitrage opportunities to manage our commodity market risk while capturing gains. However, our ability to conduct effective hedging and arbitrage activities primarily depends on our expectations of market price movements and investment experience. We closely monitor and adjust our trading strategies based on market conditions and internal risk management guidelines. However, our trading decisions are based on human judgments, which involve management discretion and assumptions. If our decision-making process fails to minimize losses effectively, or our forecasts do not conform with actual changes in market conditions, our hedging and arbitrage activities may not achieve the results we anticipate, and we could suffer material losses, any of which could materially and adversely affect our business, financial condition and results of operations. We enter into futures contracts to carry out our basis trading business. Under unfavorable market conditions, fluctuations in the futures market may result in the liquidation of our positions if we do not deposit funds to meet the margin call in a timely manner, which could materially and adversely affect our business, financial condition and results of operations. In addition, the PRC futures and derivatives market currently does not provide sufficient means for us to fully hedge against volatile trading markets, which may make it difficult for us to reduce our risk exposure to fluctuations in prices, and the futures and derivatives that we use may not be as effective as we expect for hedging purposes.

In our basis trading business, we enter into contracts with each seller or buyer client as a counterparty. We face credit risks in our role as a counterparty. Any material non-payment or non-performance by a counterparty client could adversely affect our financial position, results of operations and cash flows. Although we review our credit exposure to specific clients or counterparties and to specific industries that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to receive all relevant information with respect to the credit risks of our clients and counterparties.

A significant decline in our AUM or poor investment performance may materially and adversely affect our investment management business.

We receive asset management fees based on the asset size of various mutual funds, private equity funds and asset management schemes under our management. In addition, we may earn pre-determined performance fees for certain asset management schemes. Investment performance affects our AUM and is one of the most important factors in retaining our clients and competing for new investment management businesses. Limited investment options and hedging strategies in China, as well as market volatility, could negatively affect our ability to provide stable returns for our clients and cause us to lose clients. Poor investment performance could adversely affect our revenue and growth, because:

- existing clients might withdraw funds from our investment management business, which would result in lower management fees for us;

- the development of new clients may not be as successful as we had planned;
- clients may request that we lower our fees for asset management services, particularly in an intensely competitive industry; and
- our performance fees, which are based on a percentage of investment returns, would decline.

In addition, with the release of Guidance Opinions Concerning Standardization of Asset Management Operations by Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) in April 2018, financial institutions in China are subject to regulatory requirements such as standard leverage ratios and reduction of channel-based asset management services. Under these tightening requirements, we may face greater regulatory scrutiny and adjust our business structure, which may result in additional downside pressure for our expansion of AUM and asset management business.

Our asset management fees or market share may decrease due to increased competition from commercial banks, fund management companies, trust companies, insurance companies and other competitors. Factors such as market volatility, adverse economic conditions or the failure to outperform our competitors may reduce our AUM or affect the performance of the assets or funds we manage, which could adversely affect the amount of management fees or performance fees received by us. For asset management schemes where we act as the investment manager and to which we contribute our own capital, we may be required to consolidate them onto our balance sheet due to our ability to exercise controls over these schemes, and therefore, we may also experience investment losses if there is a significant decline in the AUM or poor performance of these schemes. In addition, if our clients incur significant losses from investing in our asset management schemes, we may be subject to regulatory penalties, client complaints and compensation, litigation or adverse effects on our reputation.

If we are unable to manage the risks associated with our overseas expansion, our overall business may be materially and adversely affected.

We expect to further expand our international business, and may subject ourselves to the following risks:

- revenue fluctuation from period to period in the future due to unfavorable market conditions, intensified competition, unattractive products and services, downward pressure on fees and any other inherent risks associated with our international business operations;
- challenges in providing products, services and support, in recruiting personnel in overseas markets, and in managing sales channels and overseas distribution networks effectively;
- difficulties in managing international business operations, including complying with various regulatory and legal requirements of different jurisdictions, and obtaining approvals and necessary licenses;
- differences in accounting treatment in different jurisdictions, potential adverse tax implications and foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and
- changes in laws, regulations and policies as well as political, economic and market instability or civil unrest in the relevant jurisdictions.

If we are unable to effectively avoid or mitigate these risks, our ability to expand our international business will be impaired, or our international business may not be able to achieve or sustain profitability, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our response to government measures for stabilizing the PRC stock market may increase our exposure to market and other risks.

In 2015, in response to the significant fluctuations that the A-share market experienced from mid-June to the end of August, the PRC Government has introduced a series of measures to stabilize the stock market and restore investor confidence. Accordingly, along with a number of other PRC securities firms, we contributed twice to the designated accounts at China Securities Finance for purchasing blue-chip ETFs in China in 2015. As of December 31, 2018, the fair value of our contribution to the designated accounts at China Securities Finance, which is accounted for as financial asset at fair value through other comprehensive income on our consolidated statements of financial position, was RMB6.2 billion, of which the initial cost was RMB6.4 billion; and we had realized gain of RMB0.5 billion in aggregate from such contributions.

These measures and our significantly increased long-only equity trading position in the PRC stock market expose us to greater market and other risks. We cannot control how China Securities Finance will make use of the funds for purchasing blue-chip ETFs in China and when our contributions will be returned.

Meanwhile, in response to the government policy of resolving the difficulties of private enterprises to obtain financing, similar to other PRC securities firms, we established in November 2018 an asset management scheme with the initial cost of RMB2.0 billion to provide financing to high-quality private enterprises. As of the Latest Practicable Date, we had not deployed the capital in such asset management scheme to any specific use. Nevertheless, there can be no assurance that we are able to achieve returns or recover any of our investments in such asset management scheme after any capital deployment. There can be no assurance that we will not increase our subscribed amount in the future.

The occurrence of any of the foregoing risks could materially and adversely affect our business, financial condition, results of operations and prospects. We are unable to predict the long-term impact of the foregoing measures on our operations.

We have pursued, and may in the future pursue, mergers and acquisitions or joint ventures and other transactions that could present unforeseen integration obstacles or costs and may not enhance our business as we expect.

We have, in the past, pursued mergers and acquisitions, joint ventures and other transactions with an aim to expand the geographic scope and scale of our operations. In 2015, we were created as a result of the merger of Shenyin & Wanguo Securities and Hong Yuan Securities. Acquisitions and joint ventures involve a number of risks, and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management, difficulties with integrating IT, financial and human resources systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations.

There can be no assurance that we will be able to generate expected margins or cash flows, or to realize the anticipated benefits of such acquisitions or joint ventures, including growth or expected

synergies. There can be no assurance that our assessments of and assumptions regarding acquisition targets and joint ventures will be proved correct, and actual developments may differ significantly from our expectations. We may not be able to integrate acquisitions into our business or manage the joint ventures successfully, or such integration and management may require more investment than anticipated, and we could incur or assume unknown or unanticipated liabilities or contingencies with respect to clients, employees, suppliers, government authorities or other parties, which may impact our results of operations. Our clients may react unfavorably to our acquisition and joint venture strategy, and we may be exposed to additional liabilities of any acquired business or joint venture. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our results of operations as a result of difficulties or risks, including:

- unforeseen legal, regulatory, contractual and other issues;
- difficulty in standardizing information and other systems;
- difficulty in realizing operating synergies;
- diversion of management's attention from our day-to-day business; and
- failing to maintain the quality of services that we have historically provided.

In addition, future acquisitions or joint ventures may involve the issuance of additional shares by us, which may dilute investors' equity interest in us.

We rely on our IT systems to process and record our transactions and offer online products and services, which may be vulnerable to various disruptions including cyber-attacks.

Our operations rely heavily on our IT systems to record and process accurately a large number of transactions across numerous and diverse markets and different business segments in a timely manner. Our system for processing securities transactions is highly automated. A prolonged disruption to, or failure of, our information processing or communications systems would limit our ability to process transactions. This would impair our ability to serve our clients and execute trades on behalf of clients and for our own account, which could materially and adversely affect our competitiveness, financial condition and results of operations.

The proper functioning of our core IT systems, online platform, data processing system, mobile applications, risk management system and other data processing systems, together with the communication networks between our headquarters and branches, are critical to our business and our ability to compete effectively. We have established backup centers to carry on principal functions in the event of a catastrophe or failure of our systems and other unforeseeable events, including those caused by human error. However, there can be no assurance that our operations will not be materially disrupted if any of our systems fail. In addition, if the capacity of our trading system is unable to process all trading orders and results in client losses, we may be subject to regulatory measures, client complaints and compensation, litigation or adverse effects on our reputation.

The securities industry is characterized by rapidly changing technology. Online trading platforms and mobile applications are becoming increasingly popular among our clients due to their convenience and user-friendliness. We rely heavily on technology, including our online platform and mobile applications, to provide a wide range of brokerage services. However, our technology operations are vulnerable to disruptions from human error, natural disasters, power disruption,

computer viruses, spam attacks, unauthorized access and similar events. Disruptions to, or the instability of, our technology or external technology that allows our clients to use our online products and services could harm our business and reputation.

Negative net cash flows from operating activities may materially and adversely affect our liquidity and financial condition.

Primarily due to our substantial operating cash outflow to support the expansion of our fixed-income portfolio in our proprietary trading business and the rapid growth of our stock-backed lending business, we had negative net cash flows from operating activities of RMB5,995.6 million and RMB9,397.0 million in 2017 and 2018, respectively. See "Financial Information—Liquidity and Capital Resources—Cash Flows—Operating Activities." We cannot assure you that we will be able to generate positive net cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

A significant decrease in our internal or external liquidity could negatively affect our business and reduce client confidence in us.

Maintaining adequate liquidity is crucial to our business operations as we continue to expand our margin financing and securities lending, stock-backed lending, investment and trading, principal investment, and other business activities with substantial cash requirements. We meet our liquidity needs primarily through cash generated from operating activities and debt financing. A reduction in our liquidity could reduce the confidence of our clients or counterparties in us, which may result in the loss of business and clients. Meanwhile, we are required to comply with regulatory indicators with respect to liquidity by regulatory agencies and self-regulatory organizations such as the CSRC and the SAC. If we fail to meet regulatory liquidity requirements in China, the CSRC may also impose penalties on us or limit the scope of our business, which could, in turn, have a material and adverse effect on our financial condition and results of operations. Failure to comply with the liquidity requirements imposed by the SAC may result in disciplinary actions imposed by the SAC.

Factors that may adversely affect our liquidity position include significant growth in our margin financing and securities lending and stock-backed lending businesses, increased regulatory capital requirements, substantial investments, loss of market or client confidence or other regulatory changes. In addition, fluctuations in the fair value of our transferred financial assets, principally represented by the underlying assets of our repurchase agreements and securities lent in our securities lending business, may also affect our liquidity position where we expect to receive timely cash inflows from these assets in the future. We may incur negative net cash flows from operating activities in the future. When cash generated from our operating activities is not sufficient to meet our liquidity or regulatory capital needs, we must seek external financing. During periods of disruption in the credit and capital markets, potential sources of external financing could be limited and our borrowing costs could increase. Although our management believes that we have diversified sources of external financing, including a mix of short-term and long-term debt financing instruments, such financing may not be available on commercially acceptable terms or at all in a timely manner due to unfavorable market conditions and disruptions in the credit and capital markets.

Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not fully protect us against various risks inherent in our business.

We have established an internal risk management framework and procedures to manage our risk exposures, primarily including market, credit, liquidity, compliance and operational risks. Certain areas within our risk management policies and internal control systems and procedures may require constant monitoring, maintenance and continual improvement by our senior management and staff. Although we continue to implement our risk management policies and internal control systems, they may not be adequate or effective in mitigating our risk exposures or protecting us against unidentified or unanticipated risks. In particular, some risk management approaches are based on observations of historical market behavior and our experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by our historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience data that we rely on for our risk management methods may quickly become outdated as markets and regulations continue to evolve. Our business and prospects may be materially and adversely affected if our efforts to maintain these policies, systems and procedures are ineffective or inadequate. Deficiencies in our risk management and internal control systems and procedures may adversely affect our ability to identify any reporting errors and compliance with rules and regulations, which may also have a material and adverse effect on our business, financial condition and results of operations.

We face additional risks as we offer new products and services, transact with a broader array of clients and counterparties and expose ourselves to new asset classes and markets.

We are committed to providing new products and services in order to strengthen our market-leading position in the PRC securities industry and will continually expand our product and service offerings as permitted by relevant regulatory authorities, transact with new clients not in our traditional client base, and enter new markets. These activities may expose us to new and increasingly challenging risks, including, but not limited to:

- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and clients;
- we may be subject to stricter regulatory scrutiny, increased credit risks, market risks, compliance risks and operational risks;
- we may suffer from reputational concerns arising from dealing with less sophisticated counterparties and clients;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- we may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;
- our new products and services may not be accepted by our clients or meet our profitability expectations;
- we may be unable to obtain sufficient financing from internal and external sources to support our business expansion; and

- we may not be successful in enhancing our risk management capabilities and IT systems to identify and mitigate the risks associated with these new products and services, new clients and new markets.

If we are unable to achieve the intended results with respect to our offering of new products and services, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Changes in accounting standards, procedures or policies may materially affect our financial condition and results of operations.

The financial accounting, procedures and reporting standards governing our financial statements as well as their application and interpretation may change from time to time. Such changes may be beyond our control, and can be difficult to predict, which, in turn, could materially impact our results of operations and financial condition. In some cases, we may be required to apply a new or revised standard retrospectively, resulting in material changes to previously reported financial results.

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which became effective for the years commencing on or after January 1, 2018, and the IASB allowed for early adoption. IFRS 9 replaced IAS 39, Financial Instruments: Recognition and Measurement. In addition, in October 2017, the IASB introduced early repayment features and the concept of negative compensation (amendments to IFRS 9), which became effective for the years commencing on or after January 1, 2019, and the IASB allowed for early adoption.

Since January 1, 2018, we have adopted IFRS 9. Among other things, IFRS 9 adopts a different credit loss model compared with that being used in IAS 39, where a loss event will no longer need to occur before an impairment allowance is recognized. In addition, the impairment model of IFRS 9 demands our management to judge whether there is a significant increase in credit risks in certain assets, and if so, make provisions for lifetime expected credit losses for those assets rather than setting out an allowance in the amount of 12-month expected credit losses. For details of the impact of IFRS 9, see "Financial Information—Significant Accounting Policies and Estimates—Changes in Accounting Policies—IFRS 9, Financial Instruments." Also, see note 2(5) of the Accountants' Report in Appendix I to this document. As a result, our results of operations in 2016 and 2017 may not be indicative of our results of operations for the reporting years or periods beginning on or after January 1, 2018.

Any changes in accounting standards, procedures or policies may materially affect our results of operations and financial condition.

Significant interest rate fluctuations could affect our financial condition and results of operations.

Our interest rate risk is primarily related to our interest income, interest expenses, valuation of securities and fixed-income investment. We earn interest income from bank deposits (including our own deposits and client deposits), margin financing and securities lending, stock-backed lending and financial assets held under resale agreements. During periods of declining interest rates, our interest income may fall.

We also make interest payments on deposits we hold on behalf of our clients, short-term financing bills, corporate bonds and repurchase transactions, as well as subordinated bonds and other

debt securities. These interest expenses are directly linked to the then prevailing market interest rates. During periods of rising interest rates, our interest expenses and financing costs would generally increase. For example, our repurchase transactions, which we conduct to finance our short-term liquidity, may be subject to higher interest rates, which could result in an increase in our financing costs for our business.

In addition, we hold fixed-income investments. During periods of rising interest rates, market prices and our investment returns on fixed-income securities would generally fall.

Significant interest rate fluctuations may reduce our interest income or returns on fixed-income investments, or increase our interest expenses, any of which could adversely affect our financial condition and results of operations.

Fluctuations in the exchange rate of the Renminbi against other currencies could have a material and adverse effect on our financial condition and results of operations, and adversely affect our ability to pay dividends to holders of H Shares.

We generate most of our revenue in China, and our functional currency is Renminbi. In addition, we are actively expanding our international business. A portion of our revenue, expenses and bank borrowings is denominated in Hong Kong dollars, US dollars and other foreign currencies. As a result, fluctuations in exchange rates, particularly between the Renminbi on one hand, and Hong Kong dollar and US dollar on the other hand, may affect the level of our profitability or result in foreign exchange losses on our foreign currency-denominated assets and liabilities.

Under China's existing laws and regulations on foreign exchange, following the completion of the **[REDACTED]**, we will be able to make dividend payments in foreign currencies by complying with certain procedural requirements and without prior approval from SAFE. However, in the future, the PRC Government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances, which would limit our ability to exchange Renminbi for other currencies. Thus, we may not be able to pay dividends in foreign currencies to our H Shares holders.

The exchange rates of the Renminbi against the US dollar and other currencies fluctuate and are affected by, among other things, changes in the PRC's and international political and economic conditions and the PRC Government's fiscal and currency policies. See "Regulatory Environment—Regulatory Environment of the PRC—Other Regulations—Foreign Exchange Control." On November 30, 2015, the Executive Board of the International Monetary Fund completed the regular five-year review of the basket of currencies that make up the Special Drawing Right (SDR) and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the US dollar, Euro, Japanese yen, and British pound. From January 1, 2017 to December 31, 2018, the trading price of Renminbi against the US dollar has fluctuated substantially. There was a 10.1% difference between the highest and lowest monthly average rate of exchange of the Renminbi against the US dollar. There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which could result in further appreciation or depreciation of the Renminbi against the US dollar. In 2016, 2017 and 2018, the amount of exchange differences on translation of financial statements in foreign currencies recognized in our other comprehensive income was RMB140.6 million, negative RMB146.3 million and RMB115.3 million, respectively. See "Financial Information—Qualitative and

Quantitative Disclosures about Risks—Market Risk—Foreign currency risk." There can be no assurance that the Renminbi will not experience significant appreciation or depreciation against the US dollar in the future. A significant increase in the value of the Renminbi against foreign currencies could reduce the value of our foreign currency denominated revenue and assets.

Our operations depend on key management and professional staff, and our business may suffer if we are unable to retain or replace them.

The success of our business is dependent, to a large extent, on the continuity of our senior management and our ability to attract and retain quality professional staff who possess in-depth knowledge and understanding of the securities and financial markets. See "Directors, Supervisors and Senior Management" for details of our key management. If we lose the services of our core management members or professional personnel, we may not be able to execute our existing business strategy effectively or may have to change our existing business direction, which may materially and adversely affect our business prospects. These professional personnel include, among others, experienced investment and trading managers, licensed sponsor representatives, risk management officers, research analysts and IT specialists. Therefore, we devote considerable resources to recruiting and retaining these personnel. However, the market for quality professionals is increasingly competitive. Intense competition may require us to offer more competitive compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect our financial condition and results of operations.

We have not obtained title certificates to some of the properties we own and some of our lessors lack, or have not presented to us, appropriate title certificates for the properties we lease from them, which may materially and adversely affect our right to use such properties.

As of December 31, 2018, we had not obtained the land use right certificates for 80 properties with a total gross floor area of approximately 17,860 square meters, representing 10.0% of the total gross floor area of owned properties, as well as the official building ownership certificates and land use right certificates for 28 properties with a total gross floor area of 6,215 square meters, representing 3.5% of the total gross floor area of owned properties. We had obtained the state-owned land use right certificates and building ownership certificates for three properties with a total gross floor area of 6,083 square meters, representing 3.4% of the total gross floor area of owned properties, while the corresponding land use right was obtained by way of allocation. In total, we have not obtained proper building ownership certificates and/or land use rights certificates or the owners are third parties for 111 properties with a gross floor area of approximately 30,156.89 square meters, representing 16.9% of the aggregate gross floor area of properties we own.

As of December 31, 2018, we leased 432 properties in the PRC with an aggregate gross floor area of 271,690 square meters. We use these leased properties primarily for our offices and operating premises. Among these 432 properties, our landlords have not provided us with the building ownership certificates or, where the landlord is different from the building ownership certificate holder, the landlord has not provided sufficient evidence proving that the subleasing is ratified by such holder, for 50 properties with a gross floor area of approximately 8,439 square meters, representing approximately 6.8% of the aggregate gross floor area of the properties we lease. In respect of four leased properties with a total gross floor area of approximately 2,355 square meters, representing approximately 0.9% of the total gross floor area of our leased properties, the leasing contracts have expired and we are currently undergoing, intend to undergo renewal procedures or plan to relocate. As of December 31,

2018, in respect of one leased property with a gross floor area of 1,423 square meters, representing approximately 0.5% of the total gross floor area of our leased properties, the lease term is over 20 years. See "Business—Properties."

We are requiring our landlords to provide and/or obtain proof of title or to obtain the title certificates for the 50 leased properties referred to above, but the timing for obtaining such certificates is beyond our control. If our landlords do not have or obtain the proper building ownership certificates and/or the land use rights certificates for such properties, our rights in relation to such properties might not be entirely protected.

Any claim or dispute related to the title of the properties owned or leased by us may result in the relocation of our operating premises and offices. We cannot guarantee that the legality of our use and occupation of the relevant land and buildings will not be challenged, or that we will be able to secure alternative properties for our business if we are required to relocate. If we or our landlords cannot obtain the relevant building ownership certificates and land use rights certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, incur additional relocation costs, or our business operations may be disrupted, any of which may have a material and adverse effect on our business, financial condition and results of operations.

Our large amounts of deferred tax assets and financial assets are subject to the uncertainties of accounting estimates.

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain 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. Therefore, actual results may differ from these accounting estimates. See note 29 of the Accountants' Report in Appendix I to this document. We believe that the substantial amounts of our deferred tax assets are subject to the uncertainties of accounting estimates and therefore warrant particular attention.

Our deferred tax assets were RMB1,580.3 million, RMB1,310.5 million and RMB1,800.7 million as of December 31, 2016, 2017 and 2018, respectively. Based on our accounting policies, deferred tax assets are recognized where there are timing differences between the carrying amount of assets for financial reporting purpose and the amounts used for taxation purposes. The realization of a deferred tax asset mainly depends on our management's judgment as to whether sufficient profits or taxable temporary differences will be available in the future. Management's assessment is continually reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. If sufficient profits or taxable temporary differences are not expected to be generated, our deferred tax assets would be impaired.

For financial reporting purposes, we categorize fair value measurements of financial assets and liabilities into level I, level II or level III, based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement. As of December 31, 2016, 2017 and 2018, we had RMB27.2 billion, RMB43.4 billion and RMB72.0 billion of level II financial assets, respectively. Compared with level I financial assets, level II financial assets are not quoted in an active market, and we use valuation techniques to estimate the fair value of these assets. When estimating fair value using these valuation techniques, we consider observable inputs and

market data, such as the yield curve of interest rate products and foreign exchange rates, among other things. Changes in these factors will affect the estimated fair value of our level II financial assets and therefore these assets will face uncertainty in accounting estimation. As of December 31, 2016, 2017 and 2018, we had RMB16.7 billion, RMB13.7 billion and RMB3.7 billion of level III financial assets, respectively, the scale of which were much smaller than level II financial assets. For level III financial instruments, fair values are determined using valuation techniques such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within level III of the valuation hierarchy are generally based on the observability and significance of the inputs to the overall fair value measurement. Such unobservable inputs are based on management estimates, which are subject to uncertainty and might materially differ from the actual results, and which in turn may impact our financial performance.

We are exposed to reputational risk, which may have a material and adverse effect on our business, results of operations, and financial condition.

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties that could subject us to government-imposed sanctions and adverse publicity, and therefore harm our reputation. In the past, there have been instances of misconduct committed by our employees and agents, which caused us to be subject to regulatory measures and legal proceedings.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective, and there can be no assurance that fraud or other misconduct will not occur in the future or that we will detect and prevent such fraud or misconduct in a timely manner. If such fraud or other misconduct does occur, it may cause negative publicity as a result. Our failure to detect and prevent fraud and other misconduct may have a material and adverse effect on our business, reputation, financial condition and results of operations.

We may fail to implement relevant internal control measures or detect money laundering and other illegal or improper activities in our business operations on a timely basis.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in regions and countries such as China and Hong Kong. These laws and regulations require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, establish or designate an independent anti-money laundering department, establish a client identification system in accordance with relevant rules, record the details of client activities and report suspicious transactions to relevant authorities. See "Regulatory Environment—Regulatory Environment of the PRC—Other Regulations—Anti-Money Laundering; Anti-terrorism" and "Risk Management—Risk Management and Internal Control Measures in Our Major Business Lines—Anti-Money Laundry Management."

While we have adopted policies and procedures aimed at detecting and preventing the use of our business platforms to facilitate money laundering activities and terrorist acts, we may fail to implement relevant internal control measures from time to time, and such policies and procedures may

not completely eliminate instances in which we may be used by third parties to engage in money laundering and other illegal or improper activities. If we fail to fully comply with applicable laws and regulations, the relevant government agencies may freeze our assets or impose fines or other penalties on us, which may adversely affect our business, reputation, financial condition and results of operations.

Our business might be affected by the operational failure, fraud or misconduct of our employees.

We face the risk of the operational failure, fraud or misconduct of our employees, which mainly includes accidents, errors or intentional misconducts that take place in the course of the day-to-day operation of the investment banking, principal investment, personal finance, institutional services and trading and investment management businesses. Although we have implemented internal control measures including strengthened transaction review and enhanced standard operation training to prevent against the risk of employee operational failure, fraud or misconduct, we may not be able to completely avoid the occurrence of or timely detect any operational failure, fraud or misconduct. Any future operational failure, fraud or misconduct of employees or any termination of employment relationship in relation to operational failure, fraud or misconduct may subject us to regulatory penalties, client disputes or even legal proceedings which could adversely affect our business and reputation, as well as our ability to execute transactions, service our clients and manage our exposure to various risks.

Our business is susceptible to the operational failure of third parties.

We face the risk of operational failure or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries and service providers we use to facilitate our securities transactions. Any future operational failure or termination of the financial intermediaries or service providers that we use could materially and adversely affect our ability to execute transactions, service our clients and manage our exposure to various risks.

In addition, as our interconnectivity with our clients grows, our business also relies heavily on our clients' use of their own systems, such as mobile devices, PCs and websites, and we will increasingly face the risk of operational failure in connection with our clients' systems. The operational failure of third parties may harm our business and reputation.

We may be subject to litigation and regulatory investigations and proceedings, and may not always be successful in defending ourselves against such claims or proceedings.

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to sales or underwriting practices, product design, fraud and misconduct, as well as the protection of personal and confidential information of clients. We may be subject to lawsuits and arbitration claims in the ordinary course of our business. We may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies. Litigation, regulatory investigations and proceedings brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase.

From time to time, we have been subject to litigation, regulatory investigations and proceedings arising in the ordinary course of our business. See "Business—Laws and Regulations—Litigation." A

significant judgment or regulatory action against us, or a disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees, could have a material and adverse effect on our liquidity, business, financial condition, results of operations and prospects.

We may be subject to liability and regulatory action if we are unable to protect the personal data and other confidential information of our clients.

We are subject to various laws, regulations and rules governing the protection of the personal data and confidential information of our clients. Our databases contain personal data of our clients, such as name and account number, location information relating to the address and telephone numbers for the client and account-specific information such as the date of transactions and balance. These databases are vulnerable to damage, including telecommunications and network failures, natural disasters and human acts both by individuals external to our business, as well as our employees, including fraud, identity theft and other misuse of personal data. We routinely transmit and receive personal data and confidential information of our clients through the Internet, by email and other electronic means.

Despite the security measures that we have implemented, the systems may be subject to physical or electronic break-ins, cyber-attacks, computer viruses and similar disruptive problems, and third parties may have the technology or expertise to breach the security of our transaction data and we may not be able to ensure that our vendors, service providers, counterparties or other third parties have appropriate measures in place to protect the confidentiality of such information. In addition, there can be no assurance that our employees who have access to the personal data and confidential information of our clients will not improperly use such data or information. Any security or privacy breach of these databases could expose us to liability, including regulatory fines or penalties, increase our expenses relating to the resolution of these breaches and the mitigation of their impact on affected individuals, harm our reputation and deter consumers from turning to us for their investment needs, which could have a material and adverse effect on our business, financial condition, financial returns and results of operations.

We regularly encounter potential conflicts of interest, and our failure to identify and address such conflicts of interest could adversely affect our business.

As we expand the scope of our business and client base, it is critical for us to be able to address potential conflicts of interest, including situations where two or more interests within our business naturally exist but are in competition or conflict. We have extensive internal control and risk management procedures that are designed to identify and address conflicts of interest. However, it is complicated and difficult to appropriately identify and address potential conflicts of interest. Conflicts of interest may exist between: (i) our different businesses; (ii) our clients and us; (iii) our clients; (iv) our employees and us; or (v) our clients and our employees. Our failure to address conflicts of interest could harm our reputation and impair clients' confidence in us. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could result in our losses and materially and adversely affect our business, financial condition, and operating results.

Our insurance coverage may not be adequate, which could expose us to costs and business disruption.

We maintain insurance to cover risks in certain assets of ours. See "Business—Insurance" for details. However, insurance companies in China generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. Consequently, we do not maintain business interruption insurance or key man life insurance, which are not mandatory under PRC laws. We believe we have obtained a prudent amount of insurance for the insurable risks relating to our business. However, there is no guarantee that the insurance policies we maintain are sufficient to cover risks in our business operations. Any business disruption, litigation, natural disaster, or accident may cause us to incur substantial costs and divert our resources, and we may have no insurance to cover such losses. As a result, our business, financial condition, and results of operations could be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in political and economic policies of the PRC Government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and materially and adversely affect our competitive position.

We conduct our business operations primarily in China. Accordingly, our business, financial condition, results of operations and prospects are significantly dependent on the economic, political and social conditions in China.

Although China's economy has been transitioning from a planned economy to a more market-oriented economy for almost four decades, a portion of productive assets in China are still owned by the PRC Government. The PRC Government also exercises significant influence over the economy through controlling capital investment and foreign exchange, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC Government has implemented reform measures emphasizing the utilization of market forces in economic development. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

China is one of the world's fastest growing economies as measured by GDP growth in the past 30 years and has been the world's second largest economy by gross GDP since 2010. However, there is no assurance that China's economy can sustain historical growth rates. Since the second half of 2008, the global economic slowdown, the weak US economy and the sovereign debt crisis in Europe have collectively increased downward pressure on China's economic growth. China's real GDP growth rate has decreased from 10.6% in 2010 to 6.6% in 2018 and the economy is still facing considerable downward pressure. If the economic growth of China continues to slow down, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The PRC legal system has inherent uncertainties that could limit the legal protection available to you.

PRC laws and regulations govern our operations in China. We and most of our operating subsidiaries are organized under PRC laws. China's legal system is based on written statutes. Previous court decisions may be cited for reference but have limited precedential value unless the Supreme People's Court of the People's Republic of China has otherwise stipulated. Since the late 1970s, China

has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation, and trade.

However, many of these laws and regulations, particularly those with respect to the financial services industry, are relatively new and evolving, are subject to different interpretations, and may be inconsistently implemented and enforced. In addition, only limited volumes of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of China's laws and regulations and a system of jurisprudence that gives only limited precedential value to previous court decisions can affect the legal remedies and protections available to investors, and can adversely affect the value of your investment.

In particular, the PRC financial services industry is highly regulated. Many aspects of our business depend upon the receipt of the relevant government authorities' approvals and permits. As the PRC legal system and financial services industry develop, changes in such laws and regulations, or in their interpretation or enforcement, could materially and adversely affect our business, financial condition and results of operations.

Investments in PRC securities firms are subject to ownership restrictions that may adversely affect the value of your investment.

Investments in PRC securities firms are subject to ownership restrictions. Prior approval from the CSRC is required for any person or entity to hold, directly or indirectly, 5.0% or more of the registered capital or total issued shares of a PRC securities firm. If a shareholder of a PRC securities firm increases its direct and indirect shareholding to 5.0% or more without obtaining prior approval from the CSRC, such shareholder's voting right is invalid to the extent that it exceeds the 5.0% threshold and the shareholder could be subject to CSRC sanctions, such as the correction of such misconduct, fines and confiscation of any related gains. Current ownership restrictions and future changes in ownership restrictions as imposed by the PRC Government and our Articles of Association may materially and adversely affect the value of your investment.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors, Supervisors and management.

We are a company incorporated under the laws of the PRC, and a substantial majority of our assets and subsidiaries are located in the PRC. In addition, most of our Directors, Supervisors and executive officers reside within the PRC, and the assets of most of our Directors, Supervisors and executive officers are likely to be located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon our Directors, Supervisors and executive officers, including with respect to matters arising under US federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of court judgments with the United States, the United Kingdom, Japan or most western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of court judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States, the United Kingdom, Japan or most western countries in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

You may be subject to PRC taxation on dividends received from us.

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares ("non-PRC resident individual holders") are subject to PRC individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (《關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》) (Guo Shui Han [2011] No. 348) (國税函[2011]348號), dated June 28, 2011, issued by the SAT, dividends paid to non-PRC resident individual holder of H Shares are generally subject to individual income tax of the PRC at the withholding tax rate of 10%, dependent on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides as well as the tax arrangement between the PRC and Hong Kong. Non-PRC resident individual holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. For additional information, see "Appendix III—Taxation and Foreign Exchange—PRC Taxation." In addition, under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法》) and its implementation regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a rate of 20.0% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得税的通知》) issued by the MOF and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. To our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities had not collected individual income tax on such gains. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be materially and adversely affected.

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposal of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. See "Appendix III—Taxation and Foreign Exchange—PRC Taxation." There are uncertainties as to the interpretation and implementation of the EIT Law and its implementation regulations by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon the sale or other disposal of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC resident enterprise holders' investments in H Shares may be materially and adversely affected.

Government control of currency conversion may adversely affect the value of your investments.

Most of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is currently not a freely convertible currency. A portion of our cash may be required to be converted into other currencies to meet our foreign currency needs, including cash payments on declared dividends, if any, on our **[REDACTED]**.

However, the PRC Government may restrict future access to foreign currencies for current account transactions at its discretion. If this were to occur, we might not be able to pay interest to the holders of our **[REDACTED]** in foreign currencies. On the other hand, foreign exchange transactions under capital account in China continue to be not freely convertible and require the approval of SAFE.

These limitations could affect PRC investors' investment in us, and our ability to obtain foreign currencies through equity financing, or to obtain foreign currencies for capital expenditure.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in China may materially and adversely affect our business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus, or H1N1 influenza, the Ebola virus or Middle East Respiratory Syndrome, may materially and adversely affect our business, financial condition and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in China may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC Government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our clients, which may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

Our A Shares were listed in China in 2015, and the characteristics of the A-share and H-share markets may differ.

Our A Shares were listed on the Shenzhen Stock Exchange in January 2015. Following the **[REDACTED]**, our A Shares will continue to be traded on the Shenzhen Stock Exchange and our H Shares will be **[REDACTED]** on the Hong Kong Stock Exchange. Under current PRC laws and regulations, without approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H-share and A-share markets. With different trading characteristics, the H-share and A-share markets have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of our H Shares and A Shares may not be comparable. Nonetheless, fluctuations in the price of our A Shares may adversely affect the price of our H Shares, and vice versa. Due to the different characteristics of the H-share and A-share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You should therefore not place undue reliance on the previous trading history of our A Shares when evaluating an **[REDACTED]** in our H Shares.

There has been no previous public market for our H Shares, and the liquidity and market price of our H Shares may be volatile.

Prior to the **[REDACTED]**, there has been no public market for our H Shares. The initial issue **[REDACTED]** range for our H Shares resulted from negotiations between ourselves and the **[REDACTED]** on behalf of the **[REDACTED]**, and the **[REDACTED]** may differ significantly from the market price for our H Shares following the **[REDACTED]**. We have applied for the **[REDACTED]** of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange. A **[REDACTED]** on the Hong Kong

Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, will be sustained following the **[REDACTED]** or that the market price of our H Shares will not decline following the **[REDACTED]**. Furthermore, the price and trading volume of our H Shares may be volatile. The following factors may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding the recruitment or loss of key personnel by ourselves or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares, or sales or perceived sales of additional H Shares by us or other shareholders.

Moreover, the securities market has from time to time experienced significant price and volume fluctuations that were unrelated, or not directly related, to the operating performance of the underlying companies. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our H Shares.

Since there will be a gap of several days between the pricing and trading of our [REDACTED], holders of our [REDACTED] are subject to the risk that the price of our [REDACTED] could fall during the period before the trading of our [REDACTED] begins.

The **[REDACTED]** of our H Shares is expected to be determined on the **[REDACTED]**. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several days after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of unfavorable market conditions, or other adverse developments, that could occur between the time of sale and the time trading begins.

Future sales or perceived sales of substantial amounts of our H Shares in the public market or the conversion of our A Shares into H Shares could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to Shares in the public market. Such a decline could also occur with the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

In addition, subject to the approval of the CSRC or the authorized securities regulatory authorities of the State Council, our A Shares may be transferred to overseas investors and such transferred shares may be listed or traded on an overseas stock exchange provided certain conditions are met and certain procedures are completed. In the event of the conversion of A Shares into H Shares for listing and trading on the Hong Kong Stock Exchange, we must obtain prior approval from the CSRC and other relevant PRC regulatory authorities and the Hong Kong Stock Exchange. Approvals from holders of our A Shares and H Shares as separate classes are not required for the listing and trading of the converted H Shares. See "Share Capital—Conversion of A Shares into H Shares." Conversion of a substantial number of our A Shares into H Shares, or the perception that such conversion may occur, could materially and adversely affect the price of our H Shares.

As the [REDACTED] of our H Shares is higher than our consolidated net tangible asset value per share, purchasers of our H Shares in the [REDACTED] may experience immediate dilution upon such purchases.

As the **[REDACTED]** of our H Shares is higher than the consolidated net tangible assets per share immediately prior to the **[REDACTED]**, purchasers of our H Shares in the **[REDACTED]** will experience an immediate dilution in **[REDACTED]** adjusted consolidated net tangible assets of HK$**[REDACTED]** per H Share (assuming an **[REDACTED]** of HK$**[REDACTED]** per H Share, being the mid-point of the stated **[REDACTED]** range, and assuming the **[REDACTED]** for the **[REDACTED]** is not exercised). Our existing Shareholders will receive an increase in the **[REDACTED]** adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our H Shares may experience further dilution of their interest if the **[REDACTED]** exercise the **[REDACTED]** or if we issue additional shares in the future to raise additional capital.

Dividends declared in the past may not be indicative of our dividend policy in the future.

For the fiscal years of 2016, 2017 and 2018, we declared cash dividends of RMB2,005.7 million, RMB1,126.8 million and RMB1,126.8 million, respectively. Under the applicable PRC laws, dividends may be paid only out of our distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, our net profits for a period, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, less appropriations to statutory surplus reserve (determined under PRC GAAP) and discretionary surplus reserve (as approved by our shareholders' meeting). As a result, we may not have sufficient profit to enable us to make future dividend distributions to our shareholders, even if one of our financial statements prepared in accordance with PRC GAAP or IFRS indicates that our operations have been profitable.

Certain facts and statistics derived from government and third-party sources contained in this document may not be reliable.

We have derived certain facts and other statistics in this document, particularly those relating to the PRC, the PRC economy and the PRC securities industry, from information provided by the PRC and other government agencies, industry associations, independent research institutes and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Joint Sponsors, the **[REDACTED]** or any of our or their respective affiliates or advisors and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled

inside or outside the PRC. The facts and other statistics include the facts and statistics included in the sections entitled "Risk Factors," "Industry Overview" and "Business." Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable with statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

You should not place any reliance on any information released by us in connection with the listing of our A Shares on the Shenzhen Stock Exchange.

Following the listing of our A Shares on the Shenzhen Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in China. As a result, from time to time we publicly release information relating to ourselves on other media outlets designated by the Shenzhen Stock Exchange or the CSRC or other regulatory bodies. However, the information announced by us in connection with our A Shares is based on the regulatory requirements of the securities authorities and market practices in China, which are different from those applicable to the **[REDACTED]**. Such information does not and will not form a part of this document. As a result, prospective investors in our H Shares are reminded that, in making their investment decisions as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this document and the **[REDACTED]**. By applying to purchase our H Shares in the **[REDACTED]**, you will be deemed to have agreed that you will not rely on any information other than that contained in this document, the **[REDACTED]** and any formal announcements made by us in Hong Kong with respect to the **[REDACTED]**.

We will release our 2019 first quarter consolidated financial results on the Shenzhen Stock Exchange no later than April 30, 2019, which is within several days after the [REDACTED]. If such quarterly consolidated financial results fail to meet the investor's expectation, the trading price of our H shares may be adversely affected.

We will release our 2019 first quarter consolidated financial results on the Shenzhen Stock Exchange within several days after the **[REDACTED]** but in any event no later than April 30, 2019, in accordance with the applicable disclosure requirements for A-share listed companies. Our historical quarterly consolidated financial results may not be indicative of any of our future quarterly financial results. Our unconsolidated unaudited monthly financial data of Shenwan Hongyuan Securities, Shenwan Hongyuan Financing Services and Shenwan Hongyuan Securities (Western) included elsewhere in this document for each of the first three months of 2019 were not indicative for our consolidated financial results for the first quarter of 2019 and such unconsolidated unaudited monthly financial data do not include all the relevant information for you to evaluate our performance in the same period. Our 2019 first quarter consolidated financial results may not match what is reflected in our unconsolidated unaudited monthly financial data contained elsewhere in this document. If our 2019 first quarter consolidated financial results fail to meet the investor's expectation, the trading price of our H shares may be adversely affected.

You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding ourselves and the [REDACTED].

Prior to the publication of this document, there had been press and media coverage regarding us and the **[REDACTED]**, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the **[REDACTED]**. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only, and should not rely on any other information.

In preparation for the **[REDACTED]**, we have applied to the Hong Kong Stock Exchange for the following waivers and consents from strict compliance with the relevant provisions of the Hong Kong Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Hong Kong Listing Rules, all applicants applying for a primary listing on the Hong Kong Stock Exchange must have sufficient management presence in Hong Kong. This would normally mean that at least two of the applicant's executive directors must be ordinarily resident in Hong Kong.

The Company's business operations are primarily located in the PRC and the vast majority of the Company's assets are located in the PRC. The Company's executive Directors are based in the PRC as the Board believes it is more effective and efficient for its executive Directors to be based in a location where our substantial operations are located. The Company therefore does not, and in the foreseeable future will not, maintain management presence in Hong Kong.

Accordingly, pursuant to Rule 19A.15 of the Hong Kong Listing Rules, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Hong Kong Listing Rules, provided that the Company implements the following arrangements:

(i) We have appointed Mr. Chu Xiaoming (儲曉明), Chairman of the Board of Directors, and Mr. Yang Changyun (陽昌雲), Deputy General Manager, Chief Financial Officer, Secretary to the Board of Directors and the joint company secretary, as the authorized representatives for the purpose of Rule 3.05 of the Hong Kong Listing Rules. They will serve as the principal channel of communication with the Hong Kong Stock Exchange and make themselves readily available to communicate with the Hong Kong Stock Exchange. They can be readily contactable by phone, fax and email to deal promptly with enquiries from the Hong Kong Stock Exchange, and will also be available to meet with the Hong Kong Stock Exchange to discuss any matters on short notice. The contact details of our authorized representatives have been provided to the Hong Kong Stock Exchange.

(ii) All Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange within a reasonable period. In addition, each Director has provided his/her contact details, including mobile phone numbers, office phone numbers, email addresses and fax numbers, to the authorized representatives and to the Hong Kong Stock Exchange. In the event that a Director expects to be traveling or otherwise be out of office, he/she will provide the phone number of the place of his/her accommodation or other contact information to the authorized representatives, to ensure that each of the authorized representatives will be able to contact all the Directors promptly at all times if and when the Hong Kong Stock Exchange wishes to contact the Directors.

(iii) We have appointed Shenwan Hongyuan Capital (H.K.) Limited and ABCI Capital Limited as our joint compliance advisors in accordance with Rule 3A.19 of the Hong Kong Listing Rules, which will serve as additional and alternative channels of communication with the Hong Kong Stock Exchange in addition to our authorized representatives. The joint compliance advisors will have reasonable access, at all times during the term of their appointment, to our authorized representatives, Directors and other officers of the

Company, participate in the communication between the Hong Kong Stock Exchange and the Company and answer inquiries from the Hong Kong Stock Exchange.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Hong Kong Listing Rules, we must appoint a company secretary who possesses the necessary academic or professional qualifications or relevant experience, and is therefore capable to discharge the functions of the company secretary. Note 1 to Rule 3.28 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of the Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Hong Kong Listing Rules further sets out the factors that the Hong Kong Stock Exchange will consider in assessing an individual's "relevant experience":

(i) length of employment with the issuer and other issuers and the roles he/she has undertaken;

(ii) familiarity with the Hong Kong Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules; and

(iv) professional qualifications in other jurisdictions.

The Company has appointed Mr. Yang Changyun (陽昌雲) ("**Mr. Yang**") as one of the joint company secretaries. He has extensive experience in corporate governance matters, corporate secretarial affairs and is the secretary to the Board. However, Mr. Yang does not possess the qualifications under Rule 3.28 of the Hong Kong Listing Rules, and may not be able to fulfill the requirements of the Hong Kong Listing Rules on his own. Therefore, we have appointed Ms. Fok Po Yi (霍寶兒) ("**Ms. Fok**"), a member of the Hong Kong Institute of Certified Public Accountants, who is qualified under Rule 3.28 of the Hong Kong Listing Rules to act as the other joint company secretary and to work closely with and provide assistance to Mr. Yang. The term of the appointment of Mr. Yang and Ms. Fok as the joint company secretaries is three years commencing from the **[REDACTED]**.

The following arrangements have been, or will be, put in place to assist Mr. Yang in acquiring the qualifications and experience as the company secretary of the Company required under Rule 3.28 the Hong Kong Listing Rules:

(a) Mr. Yang will endeavor to attend relevant training and familiarize himself with the Listing Rules and duties required for a company secretary of a PRC issuer listed on the Hong Kong Stock Exchange, in addition to satisfying the minimum requirement under Rule 3.29 of the Listing Rules. Furthermore, both Mr. Yang and Ms. Fok will seek and have access

to advice from the Company's Hong Kong legal and other professional advisers as and when required.

(b) Mr. Yang has confirmed that he will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure and the functions and duties of the company secretary of a Hong Kong listed company during each financial year as required under Rule 3.29 of the Listing Rules.

(c) Before the expiry of the initial three-year period of Mr. Yang's term of appointment as the company secretary of the Company, the Company must liaise with the Hong Kong Stock Exchange to revisit the situation in the expectation that the Company should then be able to demonstrate to the satisfaction of the Hong Kong Stock Exchange that Mr. Yang, having had the benefit of Ms. Fok's assistance for three years, would have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

(d) The Company undertakes to re-apply to the Hong Kong Stock Exchange in the event that Ms. Fok ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Members of the Group have entered into and are expected to continue with certain transactions which, after the **[REDACTED]**, will constitute our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver under Rule 14A.105 of the Hong Kong Listing Rules from strict compliance with the relevant requirements in respect of continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. See "Connected Transactions" for details.

WAIVER FROM STRICT COMPLIANCE WITH RULES 4.04(2) AND 4.04(4) OF THE HONG KONG LISTING RULES

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountant's report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document.

As clarified in the guidance letter HKEX-GL32-12 issued by the Stock Exchange ("**GL32-12**"), acquisitions of business include acquisitions of associates and any equity interest in another company.

Furthermore, the Stock Exchange has indicated in GL32-12 that it may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances.

Category I Acquisitions

Listing Rule Requirements

The Hong Kong Stock Exchange will ordinarily grant a waiver in relation to acquisitions of equity securities in the ordinary and usual course of business subject to the following conditions:

(a) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of each acquisition are all less than 5% by reference to the most recent financial year of the applicant's trading record period;

(b) the applicant is neither able to exercise any control, nor has any significant influence, over the underlying company or business; and

(c) the listing document should include the reasons for the acquisitions and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the applicant and its connected persons.

The Company made and is considering to make certain investments after the Track Record Period and up to the Latest Practicable Date, details of which are set out in below (the "**Category I Acquisitions**"):

No.	Name of the target company	Investment amount (in RMB thousands)	Percentage of shareholding / equity interest	Principal business	Basis for determining the investment amount
1.	Company A	200,000	16.66%	Oral health care service	Valuation
2.	Company B	100,000	8%	Manufacturers of disinfectant products	Valuation
3.	Bornsales Science & Technology Co., Ltd. (本貿科技股份有限公司)	20,000	3%	Internet Data Center construction and maintenance	Valuation

Each of the above investments was or will be settled in cash. To the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, all of the target companies set out above and their ultimate beneficial owners are third parties independent from our Company and its connected persons. The Company entered into an investment agreement in respect of the acquisition of Bornsales Science & Technology Co., Ltd. (本貿科技股份有限公司) which became effective on January 23, 2019, and such acquisition has been completed in late January 2019. Save as above, as of the Latest Practicable Date, the final terms and conditions of the Category I Acquisitions have yet to be completed and may be subject to change. The Directors will ensure that the terms of the transactions are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The above-mentioned Category I Acquisitions are conducted in our ordinary course of business, which will further diversify our principal investment portfolio and benefit our principal investment business.

Conditions to the waivers granted by the Hong Kong Stock Exchange

Based on the following reasons, the Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 4.04(2) and 4.04(4) of the Listing Rules:

(a) Ordinary and usual course of business

Equity investments of this nature is part of the ordinary course of business of the Group. The Company, Hongyuan Huizhi, Hongyuan Huifu, Shenwan Hongyuan Industrial Investment Management, Shenyin & Wanguo Alternative Investment Co., Ltd. (申銀萬國創新證券投資有限公司), Shenyin & Wanguo Investment Co., Ltd. (申銀萬國投資有限公司) in aggregate, have an investment team comprising of approximate 76 members responsible for equity investments on a full-time basis.

The investments, including the above Category I Acquisitions, are classified as financial assets carried at fair value through profit or loss and are not consolidated into the Group's financial statements. Changes in the fair value are included in profit or loss in the period in which they arise and presented within "Net investment gains" in the income statement. Upon disposal, the difference between the net sale proceeds and the carrying amount is also included in the income statement as "Net investment gains".

(b) The percentage ratios of each investment are all less than 5% by reference to the most recent financial year of the Company's Track Record Period

The percentage ratios for each of the Category I Acquisitions are all significantly less than 5% by reference to the most recent financial year of the Company's Track Record Period. To the best knowledge of the Company, the Category I Acquisitions are not subject to aggregation under Rule 14.22 of the Listing Rules.

Accordingly, the Company considers that the Category I Acquisitions are immaterial and does not expect them to have any material effect on the business, financial condition or operations of the Group.

(c) The Company is neither able to exercise any control, nor has any significant influence, over the underlying company or business

The Company only holds a minority or non-controlling equity interest in each of the target companies under the Category I Acquisitions and does not control their boards of directors. Given that the Group is neither able to exercise any control nor has any significant influence over each of the target companies under the Category I Acquisitions, the Company would not be able to compel or request the target companies of the Category I Acquisitions to cooperate with its audit work in order for the Company to comply with the relevant requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules.

(d) Alternative disclosure in the document

The Company herein provides alternative information in the document in connection with the Category I Acquisitions. Such information includes those which would be required for a discloseable transaction under Chapter 14 of the Listing Rules including, for example,

reasons for the investments and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the Company and its connected persons. For the avoidance of doubt, the identities of Company A and Company B are not disclosed in the document because (i) the Company has entered into confidentiality agreements with Company A and Company B, respectively, and has not obtained consent for such disclosure and/or (ii) given that the Company has not yet entered into legally binding agreements with respect to all of these investments as of the Latest Practicable Date, disclosure of the names of Company A and Company B in the document is commercially sensitive and may jeopardize the Company's ability to consummate the proposed investments; and/or (iii) given the competitive nature of the industry in which the Company operates, it is commercially sensitive to disclose the identities of Company A and Company B (including, for example, the Company's competitors may approach these target companies with alternative investment proposals after seeing their names disclosed in the document which will interfere the Company's plans of business growth.

The Company does not expect to use any proceeds from the Proposed **[REDACTED]** to fund such Category I Acquisitions.

Financial Information of the Target Companies

The assets, revenue and profits in relation to each of the Category I Acquisitions (based on the audited financial information of the Company A and Bornsales Science & Technology Co., Ltd. and the unaudited management accounts provided by Company B as of December 31, 2017) are set out as follows:

		As of December 31, 2017		
No.	**Name of the target company**	**Revenue *(in RMB thousands)***	**Profit before income tax *(in RMB thousands)***	**Asset *(in RMB thousands)***
1.	Company A	182,581	45,985	159,336
2.	Company B	994,520	110,853	1,239,795
3.	Bornsales Science & Technology Co., Ltd. (本貿科技股份有限公司)	425,434	43,137	432,951

Category II Acquisition

Listing Rule Requirements

The Stock Exchange will ordinarily grant a waiver in relation to acquisitions of a business or subsidiary subject to the following conditions:

(a) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of the acquired or to be acquired business or subsidiary are all less than 5% by reference to the most recent financial year of the applicant's trading record period;

(b) the historical financial information of the acquired or to be acquired business or subsidiary is not available or would be unduly burdensome to obtain or prepare; and

(c) the listing document should include at least the information that would be required for a discloseable transaction under Chapter 14 of the Listing Rules on each acquisition.

The Company is considering to make certain investment after the Track Record Period and up to the Latest Practicable Date, details of which are set out in below (the "**Category II Acquisition**"):

No.	Name of the target company	Investment amount (in RMB thousands)	Percentage of shareholding / equity interest	Principal business	Basis for determining the investment amount
1.	Company C	1,000,000	no more than 21%	Disposal of local non-performing assets	Valuation

The above acquisition will be settled in cash. The final terms and conditions of the above acquisition that have yet to be completed may be subject to change. The Directors will ensure that the terms of the transaction are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The above-mentioned Category II Acquisition could enable us to establish long-term strategic relationship with the counterparty. In particular, the proposed acquisition of Company C could help us diversify our principal investment portfolio.

Conditions to the waivers granted by the Hong Kong Stock Exchange

Based on the following reasons, the Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 4.04(2) and 4.04(4) of the Listing Rules:

(a) The percentage ratios of the Category II Acquisition are all less than 5% by reference to the most recent financial year of the Company's Track Record Period

The percentage ratios for the Category II Acquisition are all significantly less than 5% by reference to the most recent financial year of the Company's Track Record Period.

Accordingly, the Company considers that the Category II Acquisition is immaterial and does not expect it to have any material effect on the business, financial condition or operations of the Group.

(b) The historical financial information of the target company is not available or would be unduly burdensome to obtain or prepare

The Company does not currently have any equity interest in the target company and do not have any representation at the board of directors of the target company and is therefore unable to compel the target company to disclose its historical financial information in the document. In addition, it will require considerable time and resources for the Company and its reporting accountant to fully familiarize with the management accounting policies of the target company and compile the necessary financial information and supporting documents for disclosure in the document. As such, it would be impracticable within the tight timeframe for the Company to disclose the audited financial information of the target company as required under Rules 4.04(2) and 4.04(4) of the Listing Rules.

In addition, having considered the Category II Acquisition is immaterial and does not expect to have any material effect on the business, financial condition or operations of the Group, it would not be meaningful and would be unduly burdensome for the Company to

prepare and include the financial information of the target company during the Track Record Period in the document.

(c) Alternative disclosure in the document

The Company herein provides alternative information in the document in connection with the Category II Acquisition. Such information includes, where applicable, those which would be required for a discloseable transaction under Chapter 14 of the Listing Rules including, for example, reasons for the investment and a confirmation that the counterparty and the ultimate beneficial owners of the counterparty are independent third parties of the Company and its connected persons. For the avoidance of doubt, the identity of Company C is not disclosed in the document because (i) given that the Company has not yet entered into legally binding agreement with respect to the acquisition of Company C as of the Latest Practicable Date, disclosure of the name of Company C in the document is commercially sensitive and may jeopardize the Company's ability to consummate the proposed investment; and (ii) given the competitive nature of the industry in which the Company operate, it is commercially sensitive to disclose the identity of Company C (including, for example, the Company's competitors may approach Company C with alternative investment proposals after seeing its name disclosed in the document which will interfere the Company's plans of business growth.

The Company does not expect to use any proceeds from the Proposed **[REDACTED]** to fund the Category II Acquisition.

Financial Information of the Target Company

The assets, revenue and profits in relation to each of the Category II Acquisition (based on the audited financial information of the Company C as of December 31, 2017).

		As of December 31, 2017		
No.	**Name of the target company**	**Revenue *(in RMB thousands)***	**Profit before income tax *(in RMB thousands)***	**Asset *(in RMB thousands)***
1.	Company C	313,902	197,009	9,492,958

WAIVER IN RELATION TO THE PUBLICATION OF ANNUAL REPORT

Rule 13.46(2) of the Hong Kong Listing Rules requires an issuer to send a copy of its annual report including its annual accounts or summary financial report to its shareholders within four months after its financial year-end.

As the Company will include in this document the financial information in respect of the year ended December 31, 2018, our Directors believe that strict compliance with the requirements of Rule 13.46(2) of the Hong Kong Listing Rules would not provide our Shareholders and potential investors with further material information of the Company and would incur unnecessary administrative cost and be unduly burdensome for the Company.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 13.46(2) of the Hong Kong Listing Rules in respect of the issue of an annual report for the year ended

December 31, 2018. The Company will not be in breach of the Articles or the laws and regulations of the PRC or other regulatory requirements regarding its obligation to publish annual report.

In addition, the Company has included in this document a statement as to whether we intend to comply with the provisions in the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules upon the **[REDACTED]**. See "Directors, Supervisors and Senior Management—Corporate Governance."

CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE HONG KONG LISTING RULES

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of **[REDACTED]** under the **[REDACTED]** to a certain percentage of the total number of **[REDACTED]** offered under the **[REDACTED]** if certain prescribed total demand levels are reached.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, provided the initial allocation of **[REDACTED]** under the **[REDACTED]** shall be not less than **[REDACTED]** of the **[REDACTED]**, in the event of **[REDACTED]**, the **[REDACTED]** shall apply a clawback mechanism following the closing of the **[REDACTED]** on the following basis:

1. if the number of **[REDACTED]** validly applied for under the **[REDACTED]** represents 10 times or more but less than 40 times the number of **[REDACTED]** initially available for subscription under the **[REDACTED]**, then **[REDACTED]** will be reallocated to the **[REDACTED]** from the **[REDACTED]** so that the total number of **[REDACTED]** available under the **[REDACTED]** will be **[REDACTED]**, representing **[REDACTED]**% of the **[REDACTED]** initially available under the **[REDACTED]**;

2. if the number of **[REDACTED]** validly applied for under the **[REDACTED]** represents 40 times or more but less than 80 times the number of **[REDACTED]** initially available for subscription under the **[REDACTED]**, then the number of **[REDACTED]** to be reallocated to the **[REDACTED]** from the **[REDACTED]** will be increased so that the total number of **[REDACTED]** available under the **[REDACTED]** will be **[REDACTED]**, representing **[REDACTED]**% of the **[REDACTED]** initially available under the **[REDACTED]**; and

3. if the number of **[REDACTED]** validly applied for under the **[REDACTED]** represents 80 times or more the number of **[REDACTED]** initially available for subscription under the **[REDACTED]**, then the number of **[REDACTED]** to be reallocated to the **[REDACTED]** from the **[REDACTED]** will be increased so that the total number of **[REDACTED]** available under the **[REDACTED]** will be **[REDACTED]**, representing **[REDACTED]**% of the **[REDACTED]** initially available under the **[REDACTED]**.

In each case, the additional **[REDACTED]** reallocated to the **[REDACTED]** will be allocated between Pool A and Pool B and the number of **[REDACTED]** allocated to the **[REDACTED]** will be correspondingly reduced in such manner as the **[REDACTED]** deem appropriate. In addition, the **[REDACTED]** may reallocate **[REDACTED]** from the **[REDACTED]** to the **[REDACTED]** to satisfy valid applications under the **[REDACTED]**.

If the **[REDACTED]** is not fully subscribed, the **[REDACTED]** have the authority to reallocate all or any unsubscribed **[REDACTED]** to the **[REDACTED]**, in such proportions as the **[REDACTED]** deem appropriate.

See "Structure of the **[REDACTED]**—The **[REDACTED]**—Reallocation."

WAIVER FROM STRICT COMPLIANCE WITH RULE 10.04 OF THE LISTING RULES AND WRITTEN CONSENT UNDER PARAGRAPH 5(2) OF APPENDIX 6 TO THE LISTING RULES IN RELATION TO ALLOCATION TO EXISTING MINORITY SHAREHOLDER(S) AND/OR THEIR CLOSE ASSOCIATES

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled.

The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules provides that, unless with the prior written consent of the Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

[REDACTED] which are existing minority shareholders and/or their close associates of the Company, will participate in the **[REDACTED]** as **[REDACTED]**. In addition, it is expected that certain existing minority shareholders may participate in the **[REDACTED]** as normal placees (together the "**Existing Minority Shareholder(s)**").

We have applied to the Stock Exchange for a waiver from strict compliance with Rule 10.04 of the Listing Rules and sought a written consent from the Stock Exchange under paragraph 5(2) of Appendix 6 to the Listing Rules, and the Stock Exchange has granted us such waiver and consent to permit **[REDACTED]** which are Existing Minority Shareholders and/or their close associates of the Company, to be allocated H Shares in the **[REDACTED]** as **[REDACTED]** and (ii) other potential investors, which are Existing Minority Shareholders and/or their close associates of the Company, to be allocated H Shares in the **[REDACTED]** as normal placees, on the following grounds which are consistent with the conditions as set out in the Stock Exchange Guidance Letter 85-16 (**HKEX-GL85-16**):

(a) **Less than 5%:** Each Existing Minority Shareholder must hold less than 5% of the Company's voting rights prior to the completion of the **[REDACTED]**.

(b) **Not core connected persons:** Each Existing Minority Shareholder is not, and will not be, a core connected person of the Company or any close associate of any such core connected person immediately prior to or following the **[REDACTED]**.

(c) **No right to appoint directors:** The Existing Minority Shareholders have no power to appoint directors of the Company (other than as a shareholder of the Company) and do not have other special rights.

(d) **No impact on public float:** The Existing Minority Shareholders and their close associates would be part of the public. Thus, allocation to the Existing Minority Shareholders and/or their close associates will not affect the Company's ability to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

(e) the Joint Sponsors, the Company and the **[REDACTED]** (as applicable) confirm to the Stock Exchange that the Existing Minority Shareholders will not receive any preferential treatment in the allocation as a placee under the **[REDACTED]**.

(f) the Joint Sponsors (based on their discussions with the Company and the **[REDACTED]** (as applicable) and the confirmation from the Company in paragraph (g) below, and to their best knowledge and belief) confirm to the Hong Kong Stock Exchange in writing that they have no reason to believe that the **[REDACTED]** which are Existing Minority Shareholders have received any preferential treatment in the allocation as **[REDACTED]** by virtue of their relationships with the Company other than the preferential treatment of assured entitlement under a **[REDACTED]** agreement following the principles set out in Guidance Letter HKEX-GL51-13 ("**GL51-13**").

(g) the Company confirms to the Hong Kong Stock Exchange in writing that (a) no preferential treatment has been, or will be, given to the **[REDACTED]** which are Existing Minority Shareholders by virtue of their relationships with the Company other than the preferential treatment of assured entitlement under a **[REDACTED]** agreement following the principles set out in GL51-13; and (b) the **[REDACTED]** agreements entered into between the Company and the **[REDACTED]** which are Existing Minority Shareholders do not contain any material terms which are more favorable to the **[REDACTED]** which are Existing Minority Shareholders than those in other **[REDACTED]** agreements;

(h) **Disclosure:** The relevant information in respect of the allocation to such Existing Minority Shareholders and/or their close associates will be disclosed in this document and/or the allotment results announcement.

WRITTEN CONSENT UNDER PARAGRAPH 5(2) OF APPENDIX 6 TO THE LISTING RULES IN RELATION TO ALLOCATION TO CENTRAL HUIJIN'S CLOSE ASSOCIATE(S)

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled.

The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules provides that, unless with the prior written consent of the Stock Exchange, no allocations will be permitted to directors or existing

shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

Paragraph 4.27 of the HKEX-GL85-16 set out that the Existing Shareholders Conditions (as defined in the HKEX-GL85-16) are not applicable to close associates of existing shareholders who are PRC governmental bodies under Main Board Rule 19A.04 if the existing shareholders have no direct influence over the allocation process, and the close associates (a) are genuine investors who operate independently of the PRC governmental bodies; and (b) have no access to material non-public information regarding an IPO and no influence over the allocation process of the IPO.

As of the date of this document, Central Huijin is the Controlling Shareholder of the Company. It is expected that certain close associates of Central Huijin (the "**Central Huijin's Close Associate(s)**"), will participate in the **[REDACTED]** either as **[REDACTED]** or normal placees.

We have sought a written consent from the Stock Exchange, and the Stock Exchange has granted us a consent under paragraph 5(2) of Appendix 6 to the Listing Rules, to permit (i) **[REDACTED]**, to be allocated H Shares in the **[REDACTED]** as **[REDACTED]**, and (ii) other potential investors, which are Central Huijin's Close Associates, to be allocated H Shares in the **[REDACTED]** as normal placees, on the following grounds which are consistent with the guidance as set out in HKEX-GL85-16, and in particular paragraph 4.27 thereof.

(a) **Central Huijin shall be treated as a PRC Governmental Body within the meaning of the Listing Rules:** Central Huijin is a state-owned investment company incorporated in accordance with PRC Company Law. Central Huijin, in accordance with authorization by the State Council, makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activity. It does not intervene in the day-to-day business operations of the firms in which it invests.

(b) **No direct influence:** Central Huijin has no direct influence over the allocation process.

(c) **Genuine investor and independent operation:** Each of Central Huijin's Close Associates is a genuine investor who operates independently of Central Huijin, and made its decision of investment in the Company's **[REDACTED]** independently from Central Huijin.

(d) **No material non-public information and no influence:** Each of Central Huijin's Close Associates made its decision of investment in the Company's **[REDACTED]** based on information publicly available, and have no access to material non-public information in respect of the Company or the **[REDACTED]**. Each of Central Huijin's Close Associates has no influence over the allocation process.

(e) **No preferential treatment:**

Central Huijin's Close Associates which participated as **[REDACTED]** do not enjoy any preferential treatment other than guaranteed allocation. In particular,

(i) each of Central Huijin's Close Associate is subject to a six-month lock-up; and

(ii) the material terms of their subscriptions are substantially the same as, or not more favorable than, those of the other **[REDACTED]**.

Central Huijin's Close Associates which may participate as normal placees will be subject to the same book-building and share allocation process under the **[REDACTED]** administered by the underwriting syndicates.

Further, for the avoidance of doubt, if any normal placee constitutes Central Huijin's Close Associate and Existing Minority Shareholder of the Company at the same time, then allocation of H Shares to such placee shall be subject to the conditions and grounds under this section and under the "Waiver from Strict Compliance with Rule 10.04 of the Listing Rules and Written Consent under Paragraph 5(2) of Appendix 6 to the Listing Rules in Relation to Allocation to Existing Minority Shareholder(s) and/or their Close Associates" in this section as set above.

PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1) of the Listing Rules requires that there must be an open market in the securities for which listing is sought and that a sufficient public float of an issuer's listed securities must be maintained.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver that the minimum public float requirement under Rule 8.08(1) be reduced and the minimum percentage of our Company's H Shares (being the securities for which listing on the Stock Exchange is sought) from time to time held by the public to be the higher of:

(a) **[REDACTED]**% of the total issued share capital of the Company; or

(b) such a percentage of H Shares held by the public immediately after completion of the **[REDACTED]**, as increased by the H Shares to be issued upon the exercise of the **[REDACTED]**.

The above waiver is subject to the condition that we will make appropriate disclosure of the lower prescribed percentage of public float in the document and we will confirm sufficiency of public float in our successive annual reports after the **[REDACTED]**.

In the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Stock Exchange is complied with.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS

Name	Position	Address	Nationality
CHU Xiaoming (儲曉明)	Executive Director, Chairman	Room 101, Building No. 5, Unit 4 No. 45, Taipingqiao Street Xicheng District Beijing	Chinese
YANG Wenqing (楊文清)	Executive Director, Vice Chairman	Room 1604, Building No. 12 Chunshu Yuan, Xicheng District Beijing	Chinese
CHEN Liang (陳亮)	Executive Director, General Manager	Room 601, Building No. 10, Unit 4 Xingfu Road No.6 Tianshan District Urumqi	Chinese
CHEN Jianmin (陳建民)	Non-executive Director	Room 101 No.11, Lane 505 Rushan Road Pudong New District Shanghai	Chinese
WANG Honggang (王洪剛)	Non-executive Director	Room 302 No.1, Lane 99 Dongxiu Road Pudong New District Shanghai	Chinese
WANG Fengchao （王鳳朝）	Non-executive Director	No. 3, 2F, Unit 1, Building 4 No. 58, Huanhua South Road Qingyang District Chengdu	Chinese
GE Rongrong (葛蓉蓉)	Non-executive Director	Room 505, Unit 3, Building No. 2 No. 82, Enjizhuang Haidian District, Beijing	Chinese
REN Xiaotao (任曉濤)	Non-executive Director	Room 501, No. 33, Lane 1800 Dongfang Road Pu Dong New District, Shanghai	Chinese
YE Mei (葉梅)	Independent Non-executive Director	No. 2-3801, Lane 1 Weifang West Road Pudong New District Shanghai	US
XIE Rong (謝榮)	Independent Non-executive Director	Room 1501 No.12, Lane 1650 Jinxiu Road Pudong New District Shanghai	Chinese
HUANG Danhan (黃丹涵)	Independent Non-executive Director	Room 806, Building No. 1 Xinke Xiangyuan Zhongguancun Haidian District Beijing	Chinese

Name	Position	Address	Nationality
YANG Qiumei (楊秋梅)	Independent Non-executive Director	61G, Tower 5 The Belcher's 89 Pok Fu Lam Road Hong Kong	Chinese (Hong Kong)

SUPERVISORS

Name	Position	Address	Nationality
YANG Yucheng (楊玉成)	Chairman of the Board of Supervisors	Room 401, Gate 7 Building No.54, Beili Balizhuang Haidian District Beijing	Chinese
WEN Feng (溫鋒)	Supervisor	Room 1706, Building No.4 Xicui Road 5 Haidian District Beijing	Chinese
GONG Bo (龔波)	Supervisor	Room 304, No.1 Chengzhong Middle Road 39, Choucheng Avenue Yiwu Zhejiang	Chinese
WEI Yong (衛勇)	Supervisor	Room 103 No. 7, Lane 207 Kangping Road Xuhui District Shanghai	Chinese
HUANG Qi (黃琦)	Employee Representative Supervisor	Room 801, Unit 1 Building No.6, Court 16 Xinhuali Xicheng District Beijing	Chinese
WANG Yanyang (王艷陽)	Employee Representative Supervisor	Room 0604, Building No. 17 Wangyuan Dongli Fengtai District Beijing	Chinese
XIE Kun (謝鯤)	Employee Representative Supervisor	Room 161, Floor 6 to 7 Building No.41 No.1 Area, Yile Garden Tongzhou District Beijing	Chinese
AN Gejun (安歌軍)	Employee Representative Supervisor	Room 202, Unit 2 Building No.23, Wangfu Wenxin Condo, Beiqijia Town Changping District Beijing	Chinese

For the biographies and other relevant information of the Directors and Supervisors, see "Directors, Supervisors and Senior Management."

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors . . . . . **Shenwan Hongyuan Capital (H.K.) Limited**
Level 19
28 Hennessy Road
Hong Kong

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

ICBC International Capital Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

[REDACTED]

Legal Advisors to the Company	*As to Hong Kong and United States laws* **Clifford Chance** 27/F, Jardine House One Connaught Place Central Hong Kong *As to PRC laws* **King & Wood Mallesons** 18/F, East Tower, World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing PRC
Legal Advisors to the Joint Sponsors and the [REDACTED]	*As to Hong Kong and United States laws* **Latham & Watkins LLP** 18/F, One Exchange Square 8 Connaught Place Central Hong Kong *As to PRC laws* **Grandall Law Firm (Shanghai)** 23-25/F, Garden Square No. 968 Beijing West Road Shanghai PRC
Reporting Accountants and Auditor	**KPMG** 8/F, Prince's Building 10 Chater Road Central Hong Kong
Joint Compliance Advisors	**Shenwan Hongyuan Capital (H.K.) Limited** Level 19 28 Hennessy Road Hong Kong

	ABCI Capital Limited 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
Receiving Banks	**[REDACTED]**

CORPORATE INFORMATION

Registered Office	Room 2001, 20/F, Dacheng International Building 358 South Beijing Road Urumqi High-tech Zone Xinjiang PRC
Headquarters and Principal Place of Business in the PRC	20/F, Dacheng International Building 358 South Beijing Road Urumqi High-tech Zone Xinjiang PRC No.19, Taipingqiao Street Xicheng District Beijing PRC
Principal Place of Business in Hong Kong	40/F, Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong
Company Website	http://www.swhygh.com *(This website and the information contained on this website do not form part of this document)*
Joint Company Secretaries	Mr. YANG Changyun (陽昌雲) No.19, Taipingqiao Street Xicheng District Beijing PRC Ms. Fok Po Yi (霍寶兒) (HKICPA) 40/F, Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong
Authorized Representatives	Mr. CHU Xiaoming (儲曉明) No. 19, Taipingqiao Street Xicheng District Beijing PRC Mr. YANG Changyun (陽昌雲) No. 19, Taipingqiao Street Xicheng District Beijing PRC
Strategy Committee	Mr. CHU Xiaoming (儲曉明)(chairman) Mr. CHEN Liang (陳亮) Mr. CHEN Jianmin (陳建民)
Remuneration and Nomination Committee	Ms. YE Mei (葉梅) (chairwoman) Mr. CHU Xiaoming (儲曉明) Mr. XIE Rong (謝榮) Ms. YANG Qiumei (楊秋梅)
Risk Control Committee	Mr. CHEN Jianmin (陳建民)(chairman) Ms. HUANG Danhan (黃丹涵) Mr. WANG Honggang (王洪剛)

CORPORATE INFORMATION

Audit Committee	Mr. XIE Rong (謝榮)(chairman) Ms. YE Mei (葉梅) Ms. HUANG Danhan (黃丹涵) Mr. WANG Honggang (王洪剛)
H Share Registrar	**[REDACTED]**
Principal Bankers	**Beijing Fengsheng Branch of China Construction Bank** No.19, Taipingqiao Street Xicheng District Beijing PRC **Shanghai Branch of Industrial Bank** Shanghai Xingye Mansion No.168, Jiangning Road Jing'an District Shanghai PRC **Waitan Sub-branch of China Merchant Bank Shanghai Branch** No.16 Zhongshan Dongyi Road Waitan, Huangpu District Shanghai PRC **Jing'an Sub-branch, Shanghai Pudong Development Bank** No.88 Shimen Second Road Jing'an District Shanghai PRC

This section contains information and statistics on the industry in which we operate. We have extracted and derived such information and statistics, in part, from various official and publicly available sources. In addition to statistics, market share information and industry data from publicly available government sources, certain information and data contained in this section is derived from Wind Info and East Money. Wind Info and East Money are leading integrated service providers of financial data, information and software in the PRC domestic market that serve financial enterprises, including securities firms, fund management companies, insurance companies, banks and investment companies. The financial databases of Wind Info and East Money contain comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data provided by Wind Info and East Money are collected independently from various public information sources, including, among others, the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The information derived from Wind Info and East Money is not commissioned by us or the Joint Sponsors and can be accessed by all of its subscribers.

We believe that the sources of this information are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, **[REDACTED]***, the* **[REDACTED]** *, the* **[REDACTED]***, the* **[REDACTED]***, the* **[REDACTED]***, any of our or their respective directors, officers, employees, advisors, agents or representatives or any other party involved in the* **[REDACTED]***, and no representation is given as to its accuracy. Such information may not be consistent, and may not have been compiled within or outside the PRC. Accordingly, the official information provided by the government and other third-party sources as contained herein may not be accurate and should not be relied upon unduly.*

Overview of the PRC Economy

As a result of over four decades of rapid growth, China is currently the world's second-largest economy in terms of nominal GDP. According to the National Bureau of Statistics, China's nominal GDP increased from RMB64.1 trillion in 2014 to RMB90.0 trillion in 2018, representing a CAGR of 8.9%. Per capita disposable income of urban households increased from RMB28,844 in 2014 to RMB39,251 in 2018, representing a CAGR of 8.0%. Meanwhile, as the PRC Government has been driving PRC economy transition and industry upgrade, the science and technology advance, domestic consumption and continuous opening up for international investors and trade participants are expected to be the primary drivers of future economic growth. The further promotion of trade liberalization and internationalization of Renminbi will facilitate the globalization of the PRC capital markets.

The transition and development of the PRC economy facilitate the accumulation of wealth of citizens, which results in an imminent need for the development of capital markets to meet the demand of wealth allocation of PRC citizens. According to Global Wealth Report 2018 issued by Credit Suisse, as of the first half of 2018, household wealth of China has reached US$52 trillion, which is the second-highest in the world after the US. Currently, PRC citizens' assets are mainly distributed among savings deposits, wealth management products or real estate and so on. Therefore, the capital markets should develop in order to enhance the securities proportion of citizens' wealth allocation.

The transition and upgrade of the PRC economy also require the parallel development of the capital markets. As the growth of the PRC economy is becoming more innovation-driven, the

importance of capital markets will become more prominent, and the proportion of direct financing shall increase gradually. In fact, in recent years, while high-tech industry is taking up an increasing share in the PRC economy, the proportion of direct financing also shows a growing trend. According to the National Bureau of Statistics, in 2017, the added value of the high-tech manufacturing industry as a percentage of the value added in the enterprises above designated size was 12.7%, which was 0.3% higher than the previous year. The proportion of direct financing in China increased from nearly 13% at the end of the first quarter of 2015 to nearly 20% at the end of 2018. However, the proportion of direct financing in China is still relatively low, and there is much room for further development of the capital markets.

The Capital Markets in China

As the PRC economy grows, a multi-layered capital market system with sound structure and comprehensive functions has gradually been established. Capital markets are increasingly important to the development of the national economy. According to the National Bureau of Statistics, Shanghai Stock Exchange and Shenzhen Stock Exchange, the securitization ratio, which is the total market capitalization of the PRC stock market divided by the nominal GDP, increased from 40.2% as of December 31, 2013 to 48.3% as of December 31, 2018. In the future, a further increase of the direct financing level and securitization ratio in China will bring more development opportunities to the securities industry.

Stock market

The PRC stock market mainly includes the main boards on the Shanghai Stock Exchange and the Shenzhen Stock Exchange as well as the SME Board and the ChiNext Board on the Shenzhen Stock Exchange. The NEEQ, as part of China's multi-layered capital markets, primarily offers an option for small and medium-sized enterprises to obtain access to the capital markets, and has also grown rapidly in recent years. As of December 31, 2018, total market capitalization of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange ranked second in the world, according to the World Federation of Exchanges.

The following table sets forth the total number, total market capitalization, total amount of new equity issuance and total trading volume of listed companies on the two exchanges as of the dates indicated:

	As of the last trading day/for the year					
	2014	2015	2016	2017	2018	CAGR from 2014 to 2018
	(RMB in billions, except number of listed companies)					(percentage)
Number of listed companies	2,613	2,827	3,052	3,485	3,584	8.2%
Market capitalization	37,254.7	53,130.4	50,768.6	56,708.6	43,492.4	3.9
Total amount of new equity issuance	819.2	1,540.2	1,867.5	1,540.0	1,005.9	5.3
Total trading volume	74,391.3	255,594.2	127,768.0	112,809.8	90,295.9	5.0%

Source: Shanghai Stock Exchange, Shenzhen Stock Exchange

Bond market

In recent years, the PRC bond market has continued to grow rapidly. The categories of bonds have gradually diversified, and the bond market has formed a multi-layered market structure which

covers bond issuers, including the government, enterprises and financial institutions, covering traditional products, including government bonds, financial institution bonds, corporate bonds and enterprise bonds as well as innovative products such as ABS and exchangeable bonds. According to the Bank for International Settlements, as of September 30, 2018, the PRC bond market ranked third in the world in terms of outstanding balance of debt securities.

The following table sets forth the total amount of proceeds raised by PRC enterprises, financial institutions and local governments through the issuance of major bond products for the years indicated:

	2014	2015	2016	2017	2018	CAGR from 2014 to 2018
	(RMB in billions)					(percentage)
Corporate bonds	140.8	1,028.4	2,786.0	1,102.5	1,657.9	85.3%
Financial institution bonds	3,567.3	4,284.2	4,614.4	4,952.1	5,245.9	10.1
Enterprise bonds	697.2	342.1	592.6	373.1	241.8	(23.3)
Medium-term notes and short-term financing bills	3,162.2	4,553.5	4,509.5	3,414.5	4,825.2	11.1
Exchangeable bonds	6.0	26.5	67.4	117.3	46.5	67.0
Bonds issued by government-backed agencies	150.0	180.0	140.0	246.0	253.0	14.0
Local government bonds	400.0	3,835.1	6,045.8	4,358.1	4,165.2	79.6
ABS	331.0	613.5	882.3	1,478.1	2,014.6	57.1
Private placement notes	1,026.3	884.5	598.6	493.8	546.4	(14.6)
Total	**9,480.8**	**15,747.8**	**20,236.6**	**16,535.5**	**18,996.5**	**19.0%**

Source: Wind Info

Funds market

The PRC funds market has experienced significant growth in recent years, driven by a favorable regulatory environment and an accumulation of personal wealth. According to the Asset Management Association of China, as of December 31, 2018, asset management by securities firms amounted to RMB13.4 trillion, and mutual funds managed by fund management companies amounted to RMB13.0 trillion. As a result of continuous improvement in regulation, the private funds market in China has been further developed, with a rapid expansion in market size. As of December 31, 2018, there were 74,642 private fund products in China, and 24,448 private fund managers had registered with the Asset Management Association of China. As at December 31, 2018, the AUM of private securities investment fund and private equity investment fund managers amounted to RMB2.2 trillion and RMB7.7 trillion, respectively.

The following table sets forth the AUM of mutual funds, private securities investment funds and private equity investment funds of the PRC funds market as of the dates indicated:

	Amount of AUM as of the last trading day					
	2014	2015	2016	2017	2018	CAGR from 2014 to 2018
	(RMB in billions)					(percentage)
Mutual funds	4,535.4	8,397.2	9,159.3	11,599.7	13,034.7	30.2%
Private securities investment funds	464.0	1,729.0	2,611.7	1,723.4	2,239.1	48.2
Private equity investment funds	803.8	1,727.0	3,526.4	5,958.6	7,711.4	76.0%

Source: Asset Management Association of China

Derivatives market

Derivatives in the PRC market are categorized into exchange-traded derivatives and OTC derivatives. Exchange-traded derivatives consist of financial derivatives and commodity derivatives. Financial derivatives are standardized contracts traded by sellers and buyers on the China Financial Futures Exchange. As of December 31, 2018, there are six types of exchange-traded financial derivatives among financial futures in China, including CSI 300 index futures, CSI 500 index futures, SSE 50 index futures, 10-year treasury bond futures, 5-year treasury bond futures and 2-year treasury bond futures. Exchange-traded commodity derivatives mainly include agricultural products, base metals, precious metals and energy products traded on Dalian Commodity Exchange, Zhengzhou Commodity Exchange, Shanghai Futures Exchange and Shanghai International Energy Exchange. On February 9, 2015, SSE 50 ETF option contracts were listed and traded on the Shanghai Stock Exchange. OTC derivatives comprise OTC options and return swaps.

The exchange-traded derivatives market is dominated by commodity derivatives, while financial derivatives have potential for further growth. In 2018, the total transaction volume of futures exchanges in China (including China Financial Futures Exchange, Shanghai Futures Exchange, Shanghai International Energy Exchange, Zhengzhou Commodity Exchange, and Dalian Commodity Exchange) was RMB210.8 trillion, and the accumulated nominal trading amount of SSE 50 ETF option contracts amounted to RMB8.35 trillion. According to the SAC, as of December 31, 2018, the balance of OTC derivatives was RMB346.7 billion.

The following table sets forth the trading volume of major futures exchange-traded commodity futures, stock index futures and treasury bond futures for the years indicated:

	2014	2015	2016	2017	2018	CAGR from 2014 to 2018
		(RMB in trillions)				(percentage)
Commodity futures	128.0	136.5	177.4	163.3	184.7	9.6%
Stock index futures	163.1	411.7	9.3	10.5	15.7	(44.3)
Treasury bond futures	0.9	6.0	8.9	14.1	10.4	84.4
Total	**292.0**	**554.2**	**195.6**	**187.9**	**210.8**	**(7.8)%**

Source: China Futures Association, CSRC

The Capital Markets in Hong Kong

The high level of openness to, and freedom of, capital flows has contributed greatly to the internationalization of the Hong Kong securities industry. This has also attracted financial institutions around the world, whose participation has further stimulated the evolution and growth of Hong Kong as a leading financial center. As an international financial hub and offshore Renminbi center backed by mature financial and transparent legal systems, Hong Kong has benefited, and we expect it to continue to benefit, from the influx of capital from the PRC, particularly with the introduction of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

According to the Hong Kong Stock Exchange, as of December 31, 2018, the market capitalization of mainland enterprises accounted for 67.5% of total market capitalization of listed companies on the Hong Kong Stock Exchange, representing 79.5% of the total equity trading value of the Hong Kong Stock Exchange in 2018. We expect the stable growth and continual development of various industries in the PRC to continuously foster the performance of the Hong Kong capital markets.

The Securities Industry in China

Overview

In recent years, as a result of the significant opportunities brought by the rapid growth of multi-layered capital markets in China and development of new businesses and products, the PRC securities industry has undergone significant development.

According to the SAC, from 2014 to 2018, the PRC securities industry's operating revenue increased from RMB260.3 billion to RMB266.3 billion, and net profit decreased from RMB96.6 billion to RMB66.6 billion, representing a CAGR of 0.6% and -8.9%, respectively. As of December 31, 2018, there were 131 registered securities firms in China, and the total assets, net assets and net capital of all PRC securities firms amounted to RMB6.3 trillion, RMB1.9 trillion and RMB1.6 trillion, respectively. In 2015, 2016 and 2017, the average brokerage commission rate of stocks and funds was 4.97bps, 4.03bps and 3.78bps, respectively.

Competitive Landscape of the PRC Securities Industry

Competition exists in the PRC securities industry. According to the SAC, the top ten securities firms with the highest operating revenue among all PRC securities firms accounted for 49.1% of the industry's aggregate operating revenue in 2017. In addition to competition within the securities industry, competition with other financial institutions also exists in various business lines. For instance, in terms of asset management business, securities firms compete with banks, fund management companies, insurance companies and trust companies. Securities firms also face competition from commercial banks in the debt underwriting business. With the development of internet finance, securities firms will also face diverse competition from internet finance providers and emerging online wealth management and discount brokerage firms. Cross-business competition brings new opportunities and challenges to all business lines, and also facilitates the transformation and innovation of the products and businesses of securities firms.

The following table sets out the net assets, total assets, operating revenue, net profits and weighted average return on equity of the top ten PRC securities firms ranked by net assets as of December 31, 2018 based on the PRC GAAP:

	Net assets attributable to shareholders	Total assets	Operating revenue	Net profits attributable to shareholders	Weighted average return on equity
		(RMB in millions)			(percentage)
CITIC Securities	153,141	653,133	37,221	9,390	6.20%
Guotai Junan Securities	123,450	436,729	22,719	6,708	5.42
Haitong Securities	117,859	574,624	23,765	5,211	4.42
Huatai Securities	103,394	368,666	16,108	5,033	5.32
GF Securities	85,018	389,106	15,270	4,300	5.07
China Merchants Securities	80,723	304,931	11,322	4,425	5.58
Shenwan Hongyuan Group	69,399	347,725	15,277	4,160	6.19
China Galaxy Securities	65,982	251,363	9,925	2,887	4.40
Guosen Securities[1]	52,464	211,813	10,031	3,423	6.66
Orient Securities	51,739	226,870	10,303	1,231	2.37%

Source: Companies' annual reports for 2018

(1) Based on its preliminary results announcement for 2018

Our net assets under PRC GAAP ranked seventh among all PRC securities firms as of December 31, 2018. In addition, our weighted average return on equity under PRC GAAP ranked third among the top ten securities firms in China by net assets as of December 31, 2018.

For investment banking business, we ranked fifth in terms of the number of IPOs underwritten in China since the establishment of the PRC securities market up to December 31, 2018, first in terms of recommendations for quotation on the NEEQ in China since the establishment of the NEEQ up to December 31, 2018, and fifth in terms of the amount of municipal bonds underwritten in China for the nine months ended September 30, 2018.

For wealth management business, we ranked fifth in terms of the brokerage trading volume on a bilateral basis and market share of stocks, funds and bonds in China in 2018, seventh in terms of the size of margin financing and securities lending business and market share in China as of December 31, 2017, and seventh in terms of the size of stock-backed lending business and market share in China as of December 31, 2017.

For asset management business, we ranked fourth in terms of monthly average private AUM of securities firms in China in 2018.

The PRC securities industry has experienced significant growth following regulatory reforms and business innovation in major business lines:

Investment banking

Investment banking business primarily comprises equity offerings, NEEQ business, debt offerings and financial advisory.

Equity offerings mainly comprise IPOs and follow-on offerings, including placements, rights issues and convertible bonds. According to Wind Info, the total amount of equity underwritten by PRC securities firms increased from RMB900.0 billion in 2014 to RMB1.1 trillion in 2018. The top ten PRC securities firms accounted for 72.8% of market share in terms of amounts underwritten in 2018. The following table sets forth the key information relating to equity underwritten by the top ten PRC securities firms, ranked by the number of IPOs underwritten since the establishment of the PRC securities market up to December 31, 2018:

	Guosen Securities	GF Securities	CITIC Securities	Guotai Junan Securities	Shenwan Hongyuan Group[1]	Huatai Securities[2]	China Merchants Securities	Ping An Securities	Haitong Securities	China Securities
Number of IPOs underwritten ...	239	217	193	192	183	170	165	156	154	142
Total number of equity offerings underwritten ...	549	516	576	554	351	525	350	232	439	522

Source: Wind Info

(1) Data of Shenwan Hongyuan Group are calculated on data of Shenwan Hongyuan Securities and Shenwan Hongyuan Financing Services

(2) Data of Huatai Securities are calculated on data of Huatai Securities and Huatai United Securities

NEEQ business mainly provides financing channels for small and medium-sized enterprises. The following table sets forth the key information relating to the top ten PRC securities firms by recommendations for quotation on the NEEQ since the establishment of the NEEQ up to December 31, 2018:

	Shenwan Hongyuan Group	Essence Securities	Zhongtai Securities	China Securities	Soochow Securities	Changjiang Securities	China Merchants Securities	Guosen Securities	Northeast Securities	GF Securities
Number of recommendations for quotation	796	666	539	445	411	376	373	353	352	352

Source: East Money

Debt offerings mainly comprise offerings of corporate bonds, financial institution bonds, enterprise bonds, government bonds, municipal bonds, policy bank bonds, ABS, private placement notes, exchangeable bonds, and other instruments. According to Wind Info, the total amount of debt offerings underwritten by PRC securities firms increased from RMB2.2 trillion in 2014 to RMB5.9 trillion in 2018. The following table sets forth the top ten PRC securities firms by the amount of municipal bonds underwritten for the nine months ended September 30, 2018, which together underwrote 87.4% of the total principal amounts of municipal bonds issued in China for the nine months ended September 30, 2018:

	CITIC Securities	China Securities	Orient Securities	Guotai Junan Securities	Shenwan Hongyuan Group	GF Securities	Industrial Securities	BOC International (China)	Haitong Securities	Guosen Securities
	(RMB in billions, except market share)									
Amount underwritten . . .	35.2	30.9	23.8	17.4	15.7	10.7	9.9	7.1	6.0	5.9
Market share	18.9%	16.6%	12.8%	9.4%	8.4%	5.8%	5.3%	3.8%	3.2%	3.2%

Source: SAC

Financial advisory services mainly comprise advisory services provided for M&A and restructuring transactions. The transition and upgrade of China's industry structures have increased enterprises' demand for M&As, and have driven the growth of China's M&A and restructuring market.

Wealth management

Wealth management business primarily comprises trading and investment for clients in stocks, bonds, funds and derivatives, capital-based intermediary services and sales of financial products. With the overall personal assets available for investment in China increased from RMB92 trillion in 2013 to RMB188 trillion in 2017, there has been a significant increase in wealth management demand.

According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as of December 31, 2018, there were 3,584 listed companies in the PRC stock market with total market capitalization of RMB43.5 trillion, compared to 2,613 listed companies with total market capitalization of RMB37.3 trillion as of December 31, 2014.

Brokerage trading volume of stocks, funds and bonds was RMB175.5 trillion in 2018. In 2018, the stocks, funds and bonds trading volume of the top ten securities firms accounted for 49.6% of the industry's total trading volume. The following table sets forth the brokerage trading volume on a bilateral basis and market share of stocks, funds and bonds of the top ten PRC securities firms on a consolidated basis in 2018:

	CITIC Securities	Guotai Junan Securities	Huatai Securities	GF Securities	Shenwan Hongyuan Group	CICC	Century Securities	China Merchants Securities	China Securities	Haitong Securities
	(RMB in billions, except market share)									
Trading volume in stocks, funds and bonds	13,132.8	11,908.2	9,425.5	8,409.6	8,362.8	8,016.7	7,674.1	7,592.5	6,199.7	6,173.5
Market share	7.5%	6.8%	5.4%	4.8%	4.8%	4.6%	4.4%	4.3%	3.5%	3.5%

Source: Wind Info

As for margin financing and securities lending business, according to Wind Info, the size of margin financing and securities lending business decreased from RMB1.0 trillion as of December 31, 2014 to RMB755.7 billion as of December 31, 2018.

The top ten securities firms accounted for 53.8% of the industry's total balance in 2017. The following table sets forth the size of margin financing and securities lending business and the market share of the top ten PRC securities firms as of December 31, 2017:

	CITIC Securities	Guotai Junan Securities	Huatai Securities	GF Securities	China Galaxy Securities	China Merchants Securities	Shenwan Hongyuan Group	Haitong Securities	China Securities	Guosen Securities
	(RMB in billions, except market share)									
Size of margin financing and securities lending business	70.5	63.4	59.4	57.5	56.9	54.4	53.8	47.9	46.2	39.8
Market share	6.9%	6.2%	5.8%	5.6%	5.6%	5.3%	5.3%	4.7%	4.5%	3.9%

Sources: SAC

The stock-backed lending business was launched on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 2013 and has witnessed rapid growth in the past few years. The aggregate balance of stock-backed lending as of December 31, 2017 amounted to RMB819.4 billion. The top ten PRC securities firms accounted for 57.3% market share in terms of the size of stock-backed lending business. The following table sets forth the size of stock-backed lending business and the market share of the top ten PRC securities firms as of December 31, 2017:

	CITIC Securities	Guotai Junan Securities	Haitong Securities	Huatai Securities	Guosen Securities	China Galaxy Securities	Shenwan Hongyuan Group	Orient Securities	Industrial Securities	China Merchants Securities
	(RMB in billions, except market share)									
Size of stock-backed lending business	77.5	76.7	74.2	43.6	36.3	36.3	32.1	31.0	30.9	30.6
Market share	9.5%	9.4%	9.1%	5.3%	4.4%	4.4%	3.9%	3.8%	3.8%	3.7%

Sources: SAC

Investment and trading business primarily involves trading of fixed income securities, stocks, funds, exchange-traded and OTC derivatives and other securities. According to the SAC, the total balance of securities investments by securities firms in China increased from RMB661.5 billion as of December 31, 2013 to RMB2.0 trillion as of December 31, 2017. Since the launch of stock index

futures, treasury bond futures and SSE 50 ETF option, trading strategies and investment instruments available for the investment and trading activities of PRC securities firms have become more diverse. The market-making services for ETFs, SSE 50 ETF option contracts and the launch of the NEEQ have enhanced the trading capacity and liquidity risk management capabilities of market participants.

Asset management

Asset management business primarily consists of asset management by securities firms, mutual fund managers and private investment fund managers.

According to Asset Management Association of China, the total AUM of all asset management schemes in China was RMB50.4 trillion as of December 31, 2018. The total AUM of asset management by securities firms, fund managers and private investment fund managers amounted to RMB13.4 trillion, RMB11.3 trillion and RMB12.7 trillion, respectively, as of December 31, 2018.

The following table sets forth the key information relating to asset management by the top ten PRC securities firms in terms of monthly average private AUM in 2018:

	CITIC Securities	Guotai Junan Securities	Huatai Securities	Shenwan Hongyuan Group	China Merchants Securities	China Securities	BOC International (China)	GF Securities	Essence Securities	Haitong Securities
					(RMB in billions)					
Monthly average private AUM	1,549.8	812.9	812.4	756.3	656.2	618.9	605.4	445.6	315.9	310.1

Source: Asset Management Association of China

Development trends of securities industry in China

Economic transition and capital market reform have provided strategic opportunities for investment banking business. As the PRC capital markets are tasked with serving the real economy, investment banking business of PRC securities firms is playing an increasingly important role in direct financing. Financing services, including IPOs, private placements, debt offerings and ABS issuances, as well as M&A and restructuring advisory, are essential to the growth and transformation of PRC enterprises in their entire lifecycle, creating new opportunities for securities firms which intend to create long-term value for clients. The proposed establishment of the Science and Technology Innovation Board of the Shanghai Stock Exchange, new regulatory policies promoting M&A and industry consolidations and follow-on offerings will likely bring new investment banking opportunities to securities firms.

The application of financial technology and accumulation of citizen wealth facilitate the expansion and evolvement of the wealth management market in China. By leveraging mobile technology, big data, cloud computing, and artificial intelligence, securities firms provide more innovative products and enhance service capabilities. The technology-driven operating model has prompted securities firms to apply data analytics to better understand client needs, improve client satisfaction and stickiness as well as to acquire new clients. Securities firms are also shifting their business from offline to an integration of offline and online operation to streamline business processes, reduce costs and improve efficiency. With the transition of the PRC economy towards high-quality development, capital markets will become increasingly important for high net worth individuals to maintain and grow their wealth. As market competition intensifies, the average brokerage commission rate for securities and funds trading has continued to decline. The traditional revenue and operation

models of securities firms are faced with significant challenges. Therefore, it is important for PRC securities firms to transition from traditional brokerage channel services to comprehensive wealth management business to enhance understanding of client demands and product capabilities to compete effectively.

The institutionalization of capital market participants and the improved sophistication of institutional investors set increasingly higher standards for securities firms' institutional services business. PRC capital markets will become more institutionalized. The increasing participation of institutional investors creates great opportunities for the development of institutional sales and trading business of securities firms, while also setting higher standards for professionalism, complexity and diversity of business services. Large-scale securities firms with institutional client bases and a long history in the institutional business are better positioned to benefit from this trend. In recent years, professional institutional investors such as mutual fund managers, private investment fund managers and insurance companies have experienced significant business growth. At the same time, with the market entry of National Social Security Fund, pension funds and corporate annuities, as well as the launch of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, along with the entry of QDIIs, QFIIs and more international investors upon the inclusion of A-shares into MSCI index (Morgan Stanley Capital International index, a measurement of stock market performance in a particular area), the investment weight taken by institutional investors in the market is constantly increasing. The market value of securities held by institutional investors has also continuously increased and institutional investors are gradually becoming the major participants in the stock market, which has been dominated by personal investors. The rapid development of institutional investors will also have more profound impacts on the business model of institutional services business. It is important for securities firms to enhance the core strengths in numerous areas such as investment research, prime brokerage and OTC derivatives and build product innovation capabilities.

Asset management business has new development opportunities under unified supervision. Securities firms can take advantage of their strengths in active management and assets allocation, and seek new business models with institutions such as banks and insurance companies. Under the trend of strengthening unified and coordinated supervision, the asset management industry in China will continue to promote a client-oriented approach, expand product portfolio, improve active investment management capabilities, and better capitalize on the increasingly affluent client base. The asset management business of large comprehensive securities firms, in order to compete with other various types of asset managers, are expected to further strengthen competitiveness based on in-depth understanding of client demands as well as the efficient collaboration of full-service chain and integrated advantages of investment and research.

The two-way opening up of capital markets has attracted more international investors to the domestic market and accelerated the internationalization of the PRC securities industry. With opening-up initiatives such as Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Shanghai-London Stock Connect, the international businesses of PRC securities firms will become more diverse. China has made significant progress on reforming its capital markets and further opening-up continues to be a major theme. With the inclusion of A-shares into MSCI Index and a further increase of its weightings, the demand for investment in A-share stocks from foreign investors is expected to further rise. Meanwhile, with the increase of Chinese household's wealth and investable income, the demand for offshore wealth management and global asset allocation is also growing. PRC securities firms which have already set up comprehensive and multi-regional business platforms are better positioned to capture the emerging cross-border business opportunities.

With the emphasis on rating evaluation and establishment of first tier investment banks, large-scale securities firms with a solid financial position and sound risk management will have competitive advantages. With increased emphasis on securities firms' rating evaluation, which differentiates regulatory resources and measures implemented upon different securities firms in terms of required capital reserves, licensing of businesses, and inspections and compliance, large-scale and leading securities firms have an advantage when exploring new businesses. Such competitive advantage would further lead to an increase of market concentration in various business segments.

REGULATORY ENVIRONMENT OF THE PRC

Overview

We mainly operate in the PRC. All business operations of the Company and our subordinate securities companies, futures companies, private fund management companies and mutual fund management companies and alternative investment companies are subject to applicable PRC laws and regulations. These laws and regulations cover a wide range of aspects, including business regulation, corporate governance and risk control, etc. Besides, our operations are also subject to other laws and regulations of China in general, including laws, regulations, rules and other regulatory documents in respect of anti-money laundering, anti-terrorism and anti-corruption etc.

Major regulatory authorities

The business activities of the Company and our subordinate securities companies, futures companies, private fund management companies and mutual fund management companies and alternative investment companies mainly subject to regulation and management of the following Chinese government authorities and industry self-regulatory authorities:

CSRC

The CSRC is, by laws, responsible for unified supervision and management of the securities and future market of the PRC, maintaining the order thereof to ensure lawful operations of the securities and futures market. CSRC may establish representative offices based on the actual needs to perform supervision and administration duties as authorized.

Stock Exchange

A stock exchange, operating for no purpose of profit, is a self-regulatory legal person which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. The two stock exchanges of China refer to Shanghai Stock Exchange and Shenzhen Stock Exchange.

Futures Exchange

A futures exchange is a non-profit self-regulatory legal person which provides venues and facilities for centralized trading of futures and organizes and supervises trading of futures as governed by its articles of association and rules of trading.

SAC

The SAC is a self-regulatory organization of the securities industry. It is a non-profit social organization legal person, and is subject to the guidance, supervision and management of the CSRC. All securities companies shall join the SAC.

Asset Management Association of China (AMAC)

The AMAC is a self-regulatory organization of the securities investment funds industry. It is a non-profit social organization legal person, and is subject to the guidance, supervision and management of the CSRC. Fund managers and fund custodians shall join the AMAC.

China Futures Association (CFA)

The CFA is a self-regulatory organization of the futures industry. It is a non-profit social organization legal person, and is subject to the guidance and supervision of the CSRC. Futures companies and other institutions specialized in futures operation shall join the CFA.

Other Authorities

Other authorities relating to the business operations of our securities companies, futures companies, private fund management companies, mutual fund management companies and alternative investment companies mainly comprise of the PBOC, NDRC, SAFE, China Securities Depository and Clearing Company Limited (CSDC), China Securities Investor Protection Fund Corporation Limited, China Futures Margin Monitoring Center Co., Ltd., China Securities Finance Corporation Limited, National Association of Financial Market Institutional Investors and National Equities Exchange and Quotations Company Limited (NEEQ Company).

Industry Entry Requirements

Industry Entry Requirements for Securities Companies

(1) Establishment

The Securities Law (amended and came into effect on August 31, 2014) and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) (amended and came into effect on July 29, 2014) stipulate the authorized scope of business of securities companies and establish standards required for entry into the industry and other requirements. Establishment of a securities company is subject to approval by the CSRC and the acquisition of business license. The conditions required to meet include:

- Its articles of association shall comply with relevant laws and administrative regulations;
- The major shareholders shall have sustainable profitability, good reputation and no record of major violation of laws or regulations during the last three years and shall have net assets not less than RMB200.0 million;
- It shall have the registered capital required by the Securities Law. For a securities company operating securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, the minimum registered capital of the company shall be RMB50.0 million. For a company operating one of the following businesses: securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital of the company shall be RMB100.0 million. For a company operating two or more of the following businesses: securities underwriting and sponsorship, proprietary securities trading, securities asset management and other security businesses, the minimum registered capital of the company shall be RMB500.0 million;
- Its directors, supervisors and senior management should possess the required qualifications for their positions while other practitioners shall possess the proper qualification required for securities business, and no less than three senior management officers should have served as senior management officers for not less than two years in the securities industry;
- It should have effective risk management and internal control systems;

- It should have proper premises and facilities for operation; and
- Other conditions stipulated by laws, administrative rules and the CSRC as approved by the State Council.

According to the Judging Criterion & Guiding Opinions on Controlling Relationship of Securities Companies (《關於證券公司控制關係的認定標準及相關指導意見》) (effective since March 2008), the same unit or individual, or multiple units or individuals who are controlled by the same unit or individual, shall not hold equity interests in more than two securities companies and shall not hold controlling interests in more than one securities company.

The Administrative Measures for Foreign Investment in Securities Companies (《外商投資證券公司管理辦法》) (effective from April 28, 2018) stipulates the conditions and procedures for the establishment of foreign-invested securities companies. The proportion of aggregate equity interest directly held and indirectly controlled by an overseas shareholder over a foreign-invested securities company must be in compliance with the national arrangements with respect to the opening-up of the securities sector. According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (Edition 2018) (《外商投資准入特別管理措施（負面清單）（2018年版）》) (effective from July 28, 2018), shareholding in a securities company by foreign investment shall not exceed 51% (the restriction in foreign-invested shareholding will be canceled in 2021). Foreign investors may hold shares in a listed domestic securities company through legal securities trading on a stock exchange or by establishing a strategic partnership with a listed domestic securities company and holding their shares subject to the approval of the CSRC. Foreign investors who lawfully hold 5% or more of the shares in a listed domestic securities company through securities trading on a stock exchange or who jointly hold 5% or more of the shares in a listed domestics securities company with others by agreement and other arrangement shall meet the conditions required under article VI of the Administrative Measures for Foreign Investment in Securities Companies in relation to their qualification as foreign investment in securities companies, and shall comply with relevant requirements under the Securities Law and the CSRC in relation to acquisition of listed companies and approval of change of securities companies.

The following conditions shall be met for foreign investment in a securities company:

- foreign shareholders shall have the qualifications as prescribed in the Administrative Measures for Foreign Investment in Securities Companies, and their proportion of shareholding and way of capital contribution shall comply with the Administrative Measures for Foreign Investment in Securities Companies;
- the initial business scope shall match with the securities business operation experience of the controlling shareholder or the largest shareholder; and
- other prudent requirements stipulated by the CSRC.

The following conditions shall be met for a foreign shareholder of a foreign-invested securities company:

- the country or region in which the foreign shareholder is based has complete securities laws and regulation system, of which the relevant financial regulatory authorities have entered into memorandum of understanding with the CSRC or institutions recognized by the CSRC in respect of securities regulation cooperation, and the regulation cooperation relationship has been maintained in an effective way;

- the shareholder is a financial institution legally incorporated in the country or region in which it is based, and the respective financial indicators of the shareholder for the last three years satisfy the requirements of the national or regional laws and of the regulatory authorities in that country or region;
- the shareholder is engaged in securities business for over five years, receives no material punishment during the last three years from the regulatory authorities, administrative or legal authorities of the country or region in which it is based, and not being investigated by relevant authorities due to involvement in material violation of laws and regulations;
- the shareholder has well-established internal control system;
- the shareholder enjoys good international reputation and operating results, with its business scale, revenue and profit for the last three years ranking in advanced position in international market and with its long-term credit for the last three years maintained at a high level; and
- other prudent requirements stipulated by the CSRC.

According to the Guidelines on Administrative Approval for Securities Firms No.10—Increase and Change in Equity Interest of Securities Firms (《證券公司行政許可審核工作指引第10號—證券公司增資擴股和股權變更》) (effective from August 27, 2015), if an enterprise that is directly or indirectly invested by a foreign investor invests in a securities firm, the equity interest indirectly held by the foreign investor in the securities firm, based on the effective equity holding, shall not be more than 5%. The indirect equity interests of a foreign investor in a securities firm shall be exempted from such restriction if all the following conditions are satisfied:

- the foreign investor indirectly holds the equity interests in the securities firm through equity investment in a listed company;
- the largest shareholder, controlling shareholder or de facto controller of the listed company is a Chinese investor;
- if there is change in the equity structure of the listed company in the future, which results in the indirect control by the foreign investor over equity interest of the securities firm through its control of the listed company, which in turn results in violation of the opening-up policy of China, the violation shall be rectified within a specified period; the relevant equity interest shall not carry voting right if such violation is not rectified in the due time; and
- The foreign investor shall be prohibited from establishing any joint-venture securities firm with a domestic securities firm or making strategic investments in a listed securities firm as long as the foreign investor indirectly owns more than 5% of the equity interests in one or more domestic securities firm(s).

(2) Business scope

According to the Securities Law, a securities firm can conduct any of or all the following businesses with approval from the CSRC:

- securities brokerage;
- securities investment consultation;

- financial advisory in relation to securities trading and securities investment;
- securities underwriting and sponsorship;
- proprietary securities trading;
- securities asset management; and
- other securities business.

According to the Regulations on the Examination and Approval of the Business Scope of Securities Firms (Provisional) (《證券公司業務範圍審批暫行規定》) (promulgated on December 1, 2008 and amended on and effective from December 7, 2017), securities firms under common control of an entity or individual or securities firms with control relationship among each other shall not engage in the same business, unless effective measures are in place for division of operation regions or target client bases and there is no competition between the companies. Unless otherwise specified by the CSRC, the scope of business of a securities firm shall be approved by the CSRC upon its establishment in accordance with the statutory requirements, and no more than four types of businesses shall be approved for a new company. A securities firm shall obtain approval from the CSRC for any change in its scope of business, which can be categorized into increase and decrease of type of business. No more than two additional types of business can be applied for at once for securities firms. Subject to approval by the CSRC, a securities firm may operate businesses not clearly stipulated by the Securities Law, the Regulations on Supervision and Administration of Securities Firms and the rules and regulatory documents of the CSRC.

(3) Material changes

According to the provisions of the Securities Law and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》), a securities firm shall obtain approval from the CSRC if it has any of the following material changes: establishment, acquisition or de-registration of a branch; change of the scope of business or registered capital; change of any shareholder(s) holding more than 5% of the shares or de facto controller(s); change of important provisions of its articles of association; merger, division, cessation, dissolution and bankruptcy; establishment, acquisition or equity participation in securities institutions overseas.

The CSRC has gradually authorized its local branches to approve some applications for material changes by securities firms. In October 2012, according to the Decision of the State Council in Relation to the Cancelation and Adjustment of the Sixth Group of Items Requiring Administrative Approval (《國務院關於第六批取消和調整行政審批項目的決定》) (effective from September 23, 2012), the approval authority for the following material changes of securities firms was formally delegated to local branches of the CSRC:

- change of important provisions of the articles of association of securities firms;
- establishment, acquisition or de-registration of a branch;
- review and approval for issues involved in change of registered capital of securities firms;
- capital increase of a non-listed securities firm which involves qualification review of shareholders or the de facto controller(s), capital increase of a non-listed securities firm which involves change in the de facto controller(s), controlling shareholder or the largest shareholder of the firm, and approval for capital decrease of a non-listed securities firm;

- change of shareholder(s) with more than 5% of shareholdings and de facto controller(s) of an unlisted securities firm; and
- increase and decrease in the business of securities brokerage, securities investment consultation and financial advisory in relation to securities trading and securities investment, proprietary securities trading, securities asset management and securities underwriting.

(4) Establishment of subsidiaries, branches and securities business units

According to the provisions of the Regulations on Formation of Subsidiaries of Securities Firms (Provisional) (《證券公司設立子公司試行規定》) (amended on and effective from October 11, 2012), subject to the approval of the CSRC, securities firms may establish wholly-owned subsidiaries, and invest jointly in the establishment of subsidiaries with other investors who meet the requirements for shareholders of securities firms stipulated in the Securities Law. However, a securities firm and its subsidiaries or subsidiaries under the control of the same securities firm, shall not operate similar businesses having conflicts of interest or which are in competition. A subsidiary may not hold equity interest or shares, whether directly or indirectly, of its controlling shareholder, nor equity interest or shares of other subsidiaries controlled by the same securities firm. Besides, a subsidiary may not invest in its controlling shareholder or other subsidiaries controlled by the same securities firm in other way. A subsidiary as referred to in the Regulations on Formation of Subsidiaries of Securities Firms (Provisional) means a securities firm incorporated under the Company Law (amended and enacted on October 26, 2018) and the Securities Law, and controlled by a securities firm with operation of one or several securities business(es) authorized by the CSRC.

Pursuant to the provisions of the Regulatory Requirements on Branches of Securities Firms (《證券公司分支機構監管規定》) (effective from March 15, 2013), branches of a securities firm refer to branches and securities business units established by such securities firm in the PRC for business operation. The establishment, acquisition and de-registration of branches of securities firms are subject to the approval from securities regulatory authorities under the CSRC. Application for establishment or acquisition of branches by a securities firm is conditional on submission of materials to the securities regulatory authorities in which the securities firm operates, while application for de-registration of branches by a securities firm is conditional on submission of materials to the securities regulatory authorities in which the branches operate. According to the Regulatory Requirements on Branches of Securities Firms, securities firms shall meet the following requirements for the purpose of establishing or acquiring branches: having a sound governance structure and effective internal management and being able to control the risks of their existing and proposed branches; having risk control indicators in compliance with relevant rules for the previous year and those indicators remaining in compliance with relevant rules after the additional branches are established; having not received any administrative or criminal penalties for any material breach of rules or regulations for the past two years and having not had any material regulatory measures imposed on them for the previous year, and being not subject to any investigation for any branch-related activities based on any alleged material breach of rules or regulations; having a secure and stable information technology system and no material information technology incident having occurred during the previous year; and existing branches are under effective management; and other requirements as stipulated by the CSRC.

According to the Administrative Measures for the Administration of the Formation, Acquisition and Purchase of Non-Controlling Shares of Overseas Business Institutions by Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司境外設

立、收購、參股經營機構管理辦法》) (effective from September 25, 2018), the registration, change, termination and business activities of overseas subsidiaries and non-controlling business institutions shall comply with the laws, regulations and regulatory requirements of the countries or regions in which they are located. The formation, acquisition of subsidiaries and purchase of non-controlling shares of overseas business institutions by the securities and fund institution shall be approved by the China Securities Regulatory Commission and meet the following conditions:

- The country or region where the company is proposed to establish or acquire subsidiaries and purchase of non-controlling shares of business institutions has sound systems for securities laws and regulation, and the securities and fund institution has signed a memorandum of understanding on securities regulatory cooperation, and is maintaining effective regulatory cooperation, with the CSRC or another authority recognized by the CSRC;
- It shall have not received any administrative or criminal penalties for any material breach of rules or regulations for the past three years and have not had any material regulatory measures imposed on them for imperfect governance structure and imperfect internal control for the past one year, and are not subject to any current investigation or rectification for any material breach of rules or regulations;
- It shall have a sound financial position and liquidity of assets, and the net assets of a securities company shall not be less than RMB6 billion, and the net assets of a securities investment fund management company shall not be less than RMB600 million; it continued to operate for 2 years; each of its risk control indicators (if any) shall be in compliance with the relevant requirements for the recent 12 months, and each of its risk control indicators is still in compliance with the relevant requirements after the formation, acquisition of subsidiaries and purchase of non-controlling shares of business institutions;
- It has a sound corporate governance structure and a perfect risk management system and internal control mechanism, which can effectively cover the subsidiaries and business institutions that are to be established and acquired and purchased shares overseas;
- Other conditions stipulated by the CSRC.

Where a securities and fund institution establishes an overseas subsidiary, it shall be wholly-owned, except as approved by the CSRC. Overseas subsidiaries can set up professional sub-subsidiaries to carry out financial business and financial related business. Except where necessary, the above-mentioned sub-subsidiaries may not set up an institution. The further formation, acquisition and purchase of non-controlling shares of business institutions by the overseas subsidiaries shall perform relevant approval or filing procedures in accordance with relevant state regulations. Before an overseas subsidiary establishes an institution in China to engage in back-office support or assistance and other activities approved by the CSRC, the securities and fund institution shall report to the CSRC for filing.

Industry Entry Requirements for Futures Companies

(1) Establishment

The Regulations on the Administration of Futures Trading (《期貨交易管理條例》) (amended on and effective from March 1, 2017) and the Measures for the Supervision and Administration of Futures Companies (《期貨公司監督管理辦法》) (amended on and effective from December 7, 2017)

have stipulated the market entry requirements for futures companies. The establishment of futures companies shall be approved by the CSRC subject to the following conditions:

- the minimum registered capital shall be RMB30 million;
- directors, supervisors and senior management shall be qualified for their positions, while practitioners shall have futures practice qualifications;
- the articles of association of the company shall comply with relevant laws and administrative regulations;
- major shareholders and the de facto controller shall have sustainable profitability, good reputation, and shall not have a record of material violation of laws or regulations in the past three years;
- premises and operation facilities shall be in compliance with requirements;
- sound risk management and internal control systems;
- the number of staff with futures practice qualifications shall not be less than 15;
- the number of senior management with practice qualifications shall not be less than three; and
- other conditions stipulated by the futures supervision and administration authorities under the State Council.

The futures supervision and administration authorities under the State Council may increase the minimum amount of registered capital requirement according to the principle of prudent supervision and risk degree of various businesses. Registered capital shall be fully paid-up. The shareholders shall make capital contributions in monetary form or in non-monetary assets necessary for the business operations of a futures company and the capital contributions in monetary form shall not be less than 85% of the total.

According to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (《關於規範控股、參股期貨公司有關問題的規定》) (effective from June 1, 2008), an entity shall not hold controlling interests and equity interests in more than two futures companies and shall not hold controlling interests in more than one futures company. However, direct or indirect holding of equity interest of less than 5% (5% excluded) in a futures company, or controlling or holding equity interest in a futures company by an entity through its direct or indirect holding of equity interest in a securities company shall not be counted for the purpose of calculating the number of futures companies in which it controls or holds equity interest.

(2) Material changes

According to the Administrative Measures for Supervision on Futures Companies, approval of the CSRC shall be obtained for changes of shareholding of futures companies in any of the following situations:

- change of controlling shareholder or the largest shareholder;
- shareholding of an individual shareholder or the aggregate shareholding of associated shareholders is increased to 100%; and
- shareholding of an individual shareholder or the aggregate shareholding of associated shareholders, involving foreign shareholders, is increased to 5% or above.

Save as aforesaid, an approval from the local branch office of the CSRC where the company is located shall be obtained if the shareholding of an individual shareholder or the aggregate shareholding of associated shareholders in the futures company is increased to 5% or above.

According to the Administrative Measures for Futures Trading, approval of the futures supervision and administration authorities under the State Council shall be obtained for a futures company to conduct the following matters:

- merger, division, cessation, dissolution and bankruptcy;
- change of the scope of business;
- change of the registered capital and adjustment in shareholding structure;
- appearance of new shareholders holding more than 5% of equity interest, or change of controlling shareholder; and
- Other matters stipulated by the supervision and administration authorities under the State Council.

According to the Decision of the State Council in Relation to the Cancelation and Adjustment of the Sixth Group of Items Requiring Administrative Approval, change of equity interest of a future company involving 5% or above requires no further approval in case such change involves no appearance of new shareholders holding 5% or more equity interest therein and no change of controlling shareholder or the largest shareholder.

To change the registered capital, a futures company shall submit a written report to the branch office of the CSRC in the place in which it resides within five business days; to change the legal representative, a futures company shall submit the application to the branch office of the CSRC in the place in which it resides within five business days commencing from the completion of the relevant industry and commercial registration; to change the domicile or operation premise, a futures company shall properly deal with its client's assets, make sure the domicile to be relocated and the facilities planned to use can satisfy its business operation needs and file with the branch office of the CSRC in the place in which it resides within five business days commencing from the completion of the relevant industry and commercial registration; to change the domicile or operation premise, a futures company shall file with the branch office of the CSRC in the place into which it plans to move; to establish business units, branches or other domestic branches, a futures company shall file with the branch office of the CSRC in the place in which it resides within five business days commencing from the completion of the relevant industry and commercial registration; to establish domestic branches, a futures company shall file with the branch office of the CSRC in the place in which it resides; to terminate a domestic branch, a futures company shall at first properly deal with the client's assets of the branch, settle the business of the branch and terminate operating activities, and file with the branch office of the CSRC in the place in which the branch operates within five business days commencing from the completion of the aforesaid works; to establish, acquire, invest equity interest in or terminate an overseas futures operating entity, a futures company shall file with the CSRC within five business days commencing from the date on which it is approved to do so by the relevant overseas regulatory authorities; to change the registered capital or equity interest of an overseas futures operating entity, a futures company shall file with the CSRC within five business days commencing from the date on which it is approved to do so by the relevant overseas regulatory authorities; for suspension of business, a futures company shall file with the CSRC; for establishment, change, cessation, dissolution and bankruptcy, or revoke of license to operate futures business, or establishment, change or

termination of the branches, a futures company shall make the same published in the newspapers or medias as designated by the CSRC.

(3) Establishment of branches

Pursuant to the Administrative Measures for Supervision on Futures Companies, the following conditions shall be met for a futures company to apply for establishment of business units, branches and other domestic branches: it maintains sound corporate governance and its internal control system meets relevant requirements and is effectively implemented; it shall meet the risk regulatory indicators standards for the three months preceding the application date; it shall meet the requirements on client asset protection and futures margin deposit supervision; it is not a subject of investigation by competent authorities as to suspected non-compliance in its operations, nor subject to administrative or criminal penalties for the last year due to non-compliance in its operations; the proposal on establishment of branches is in line with its business development needs; other requirements specified by the CSRC according to prudent regulation principles. According to the Decision of the State Council in Relation to the Cancelation and Adjustment of a Group of Items Requiring Administrative Approval (《國務院關於取消和調整一批行政審批項目等事項的決定》) (effective from October 23, 2014), branches of the CSRC canceled administrative approval for establishment of domestic branches by futures companies

Industry Entry Requirements for Public Fund Management Companies

(1) Establishment

The establishment of a pubic fund management company requires the approval of the CSRC. The Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》) sets out the conditions necessarily required for establishment of a public fund management company, which mainly include:

- Its shareholders shall meet the requirements of the Securities Investment Fund Law (《證券投資基金法》) and the Administrative Measures for Securities Investment Fund Management Companies;
- Its articles of association shall comply with the Securities Investment Fund Law, the Company Law and the provisions of the CSRC;
- Its registered capital shall be no less than RMB100 million, which shall be paid in monetary contributions by shareholders, and foreign shareholders shall make capital contributions in freely convertible currencies;
- It shall have proposed senior management who comply with laws and administrative regulations and the provisions of the CSRC, and staff who engage in research, investment, valuation, marketing and other businesses. The number of the proposed senior management personnel and business staff shall not be less than 15 and all of them shall obtain the qualifications for funds practice;
- It shall have operating premises, security protection facilities and other business-related facilities in compliance with requirements;
- Its subordinate departments and working positions shall have reasonable division of responsibility and well-defined authorization and duties;

- It shall establish a supervision and audit mechanism, a risk control mechanism and other internal control mechanisms in compliance with the provisions of the CSRC; and
- It shall meet all other requirements of the CSRC as approved by the State Council.

According to the Administrative Measures for Securities Investment Fund Management Companies, for a sino-foreign joint venture fund management company, the domestic shareholder with the largest shareholding percentage shall meet the following conditions: for engagement in securities operations, securities investment consulting, trust asset management or other financial asset management business, the registered capital shall not be less than RMB300 million, together with good operating results and sound asset quality; other domestic shareholders with more than 5% in shareholding shall also meet the relevant conditions: the registered capital and net assets shall not be less than RMB100 million with sound asset quality; continuous operation for three consecutive complete accounting years with effective corporate governance and internal control system; not subject to any administrative or criminal penalty in the latest three years due to violation of laws and regulations; no appropriation of clients' assets to prejudice clients' interest; not being investigated by regulatory authorities due to violation of laws and regulations or being required to make rectification; has good social reputation, and has no negative record with financial regulatory, taxation, industry and commerce, other administrative authorities, self-regulatory management as well as commercial banks. Meanwhile, the foreign shareholder of a sino-foreign joint venture fund management company shall meet the following conditions: it shall be a financial institution established in accordance with the laws of the country or region where it is located, it shall be in legal subsistence and possess management experience in financial assets, with solid financial strength, good creditworthiness and was not subject to punishment by the regulatory or judicial authorities within the last 3 years; comprehensive securities laws and regulatory regimes are in place in the country or region where it operates, and the securities regulatory authority thereof has signed the memorandum of understanding on securities regulatory cooperation with the CSRC or other institutions authorized by the CSRC, and has maintained an effective regulatory cooperative relationship; its paid-up capital shall not be less than RMB300 million or in equivalent freely convertible currencies; and it shall meet all other requirements of the CSRC as approved by the State Council.

The requirements in the preceding paragraph are applicable to investment institutions in Hong Kong, Macau and Taiwan.

The percentage of shareholding of shareholders in a fund management company shall comply with the requirements of the CSRC. The percentage of shareholding or equity interest held by foreign parties in a sino-foreign joint venture fund management company in aggregate (including direct and indirect shareholdings) shall not exceed the commitment made in the opening-up policy of the securities industry in China. According to the Special Administrative Measures for Entry Requirement for Foreign Investment (Negative List) (Edition 2018), equity interest held by foreign investors in a securities investment fund management company shall not exceed 51% (this restriction in foreign shareholding will be canceled in 2021). According to the Decision of the State Council in Relation to the Cancelation and Adjustment of a Group of Items Requiring Administrative Approval (issued and effective on February 24, 2015), the CSRC has changed the requirement for the establishment of a public fund management company from pre-approval to post-approval.

(2) Material changes

According to the Administrative Measures for Securities Investment Fund Management Companies, public fund management companies shall obtain the approval of the CSRC in the event of any of the following significant changes:

- change of shareholders holding more than 5% of the company's shares;
- change of shareholders whose shareholding is less than 5% but who have significant influence on corporate governance;
- the shareholding percentage of the changed shareholders exceeds 5%;
- amendments to important provisions of the articles of association; and
- Other significant matters stipulated by the CSRC.

(3) Establishment of subsidiaries and branches

In accordance with the Administrative Measures for Securities Investment Fund Management Companies and the Provisions on Administration of Subsidiaries of Fund Management Companies (《基金管理公司子公司管理規定》) which came into effect on December 15, 2016, a public fund management company shall, subject to satisfaction of relevant requirements, apply to the CSRC for establishment of subsidiaries or branches.

Industry Entry Requirements for Private Investment Funds Subsidiaries Securities Companies

(1) Establishment

According to the Management Rules for the Private Investment Funds Subsidiaries under Securities Companies (《證券公司私募投資基金子公司管理規範》) which came into effect from December 30, 2016, a securities company shall meet the following conditions to establish private investment fund subsidiaries:

- Sound corporate governance structure, sound and effective internal control system, risk management system and compliance management system are put in place to prevent from risk delivery and conflict of interest with its private investment fund subsidiaries;
- The risk control indicators for the latest six months comply with relevant requirements of the CSRC and the Association, and these indicators continue to comply with such requirements after establishment of private investment fund subsidiaries;
- Not subject to criminal or administrative penalty in the past year due to material violation of laws and regulations, nor investigated by regulatory and other relevant authorities due to being suspected of involvement in material violation of laws and regulations;
- The provision of its articles of association in respect of foreign investment clearly states that the company may establish private investment fund subsidiaries, subject to approval by the branches of the CSRC in the place in which it is registered; and
- Other conditions stipulated by the CSRC and the SAC.

A securities company may not establish private investment fund subsidiaries if it fails to make its major business prominent, achieve stable operation, act in honesty, make its best efforts, and conduct capital restraint or effective internal control. In principle, any securities company may not establish more than one private investment fund subsidiary. Private investment fund subsidiaries shall join the SAC and be subject to the self-regulatory management from the SAC as members thereof.

(2) Business scope

A private investment fund subsidiary is prohibited from engaging in such business as not related to private investment funds.

Industry Entry Requirements for Alternative Investment Companies

(1) Establishment

According the Management Rules for the Alternative Investment Subsidiaries under Securities Companies (《證券公司另類投資子公司管理規範》) which came into effect from December 30, 2016 both, a securities company shall conduct financial products, equity interest and other alternative investment business other than those items listed in the List of Proprietary Securities Investment Items for Securities Companies (《證券公司證券自營投資品種清單》) (amended and effective from November 16, 2012) through establishment of alternative investment subsidiaries.

According to the Management Rules for the Alternative Investment Subsidiaries under Securities Companies, a securities company shall meet the following conditions to establish alternative investment subsidiaries:

- sound corporate governance structure, sound and effective internal control system, risk management system and compliance management system are put in place to prevent from risk delivery and conflict of interest with its alternative investment subsidiaries;
- possess the qualification for proprietary securities operation authorized by the CSRC;
- the risk control indicators for the latest six months comply with relevant requirements of the CSRC and the Association, and these indicators continue to comply with such requirements after establishment of alternative investment subsidiaries;
- not subject to criminal or administrative penalty in the past year due to material violation of laws and regulations, nor investigated by regulatory and other relevant authorities due to being suspected of involvement in material violation of laws and regulations;
- the provision of its articles of association clearly states that the company may establish alternative investment subsidiaries, subject to approval by the branches of the CSRC in the place in which it is registered; and
- Other conditions stipulated by the CSRC and the SAC.

A securities company may not establish alternative investment subsidiaries if it fails to make its major business prominent, achieve stable operation, act in honesty, make its best efforts, realize capital restraint or effective internal control. In principle, any securities company may not establish more than one alternative investment subsidiary. Alternative investment subsidiaries shall join the SAC and accept the self-regulatory management from the SAC as members thereof.

(2) Business scope

Alternative investment subsidiaries of a securities company may engage in the financial products, equity interest and other alternative investment business as listed in the List of Proprietary Securities Investment Items for Securities Companies, other than which, the subsidiaries shall comply with relevant laws and regulations, regulatory requirements and this norm while they may not engage in businesses other than investment operation.

Regulation on Operations

The principal businesses we currently operate include, but not limited to: securities brokerage business, securities investment consultancy (including securities investment consulting and securities research) business, margin financing and securities lending, agency sales of financial products, agency sales of securities investment funds, private assets management, securities underwriting and sponsorship, NEEQ business, proprietary securities trading, stock-options market making, assets securitization businesses, stock-backed lending business, OTC derivatives business, Shanghai-Hong Kong Stock Connect business, Shenzhen-Hong Kong Stock Connect business, futures business, mutual fund management business, private fund management business and alternative investment business.

Securities Brokerage Business

According to the Regulations on Supervision and Management of Securities Companies and the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》) which came into effect from May 1, 2010, the following conditions shall be met for a securities companies to engage in securities brokerage business: it shall establish sound management system for securities brokerage business, and implement centralized and standardized management for the securities brokerage business in order to prevent conflict of interests between the firm and its clients, and earnestly perform its anti-money laundering obligations to prevent any actions which would damage the legal rights of its clients; it shall objectively state its business qualification, service responsibility and scope etc.; it shall not provide false or misleading information; it shall not carry out its business by means of unfair competition; and it shall not induce any investors without investment intention or risk tolerance ability to participate in securities trading activities; it shall establish sound client management system and client service system for securities brokerage business, strengthen investor education and protect clients' legal rights and interests; it shall establish sound staff management system and rational performance appraisal system for securities brokerage business to regulate staff's behaviors; it shall establish sound management system for its securities business units to ensure a regulated, stable and safe operation of its securities business units; it shall establish and manage comprehensive information systems, with functions such as client account management, client deposits management, proxy trading, proxy clearing and settlement, securities depository and transaction risk monitoring, and various business data shall be stored centrally; if an employee or a practitioner at a securities company violates laws, administrative regulations, provisions stipulated by the regulatory agencies and other administrative departments, self-regulatory rules or regulations stipulated by securities companies for securities brokerage business, the securities company shall hold the employee or practitioner accountable. If a securities company or a securities business unit violates the above stipulations, the CSRC and its branches will take measures such as issuance of rectification order, regulatory interview, issuance of caution letter, temporarily suspension of handling for administrative license-related documents, punishment of related personnel, suspension of approval for new businesses, limiting business activities and other regulatory measures, as the case may be. Any violation of laws and regulations will be punished by laws. If a crime is committed, the securities company or the unit will be transferred to the proper judicial organization for prosecution.

A securities company that engages in securities brokerage business should examine whether the client accounts contain sufficient funds and securities. If the customer's capital account contains insufficient funds, it shall not accept a purchase order; if the customer's securities account contains insufficient securities, it shall not accept a sell order. For a securities company that engages in securities brokerage business, the trading settlement funds of its clients shall be deposited in a designated commercial bank and managed by a separate account opened in the name of each customer.

Securities companies shall not accept from clients absolute discretionary orders to make decisions on securities trading, select the types of securities or decide on the trading volume or trading price.

Securities Investment Consulting Business

According to the Provisional Measures on Administration of Investment Consulting on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》) which came into effect on April 1, 1998, a firm engaging in the securities investment consulting business shall obtain a business license from the CSRC. Business practitioners of securities investment consulting must obtain the securities investment consulting qualifications and join a qualified securities investment consulting institution with business qualification before providing securities investment consulting services. A company engaging in securities and futures investment consulting business needs to satisfy the following requirements: it shall have more than five professionals with qualifications for securities or futures investment consultancy. A firm engaging in both securities and futures investment consultancy shall have more than 10 professionals with relevant qualifications. At least one member of its senior management member shall obtain the relevant qualification for securities or futures investment consultancy business; its registered capital shall not be less than RMB1.0 million; it shall have permanent business premises and such communication and other information transmission facilities as appropriate to its business; it shall have articles of association; It shall have effective internal management system; and it shall satisfy other requirements as required by the CSRC.

According to the Interim Provisions on the Securities Investment Advisory Business (《證券投資顧問業務暫行規定》) which came into effect on January 1, 2011, securities investment advisory business is a basic form of securities investment consulting business. Securities companies, securities investment consultancy agencies and their staff shall provide securities investment advisory services in good faith with earnest and prudence. When providing securities investment advisory service, a securities company and its investment advisory advisors shall be loyal to clients' interests and shall not jeopardize clients' interests in favor of the company and its related parties, jeopardize clients' interests in favor of the securities investment advisors and their stakeholders, or jeopardize certain clients' interests in favor of some specific clients.

According to the Interim Provisions on the Release of Securities Research Reports （發佈證券研究報告暫行規定） effective from January 1, 2011, the release of securities research reports is a basic form of securities investment consulting business. The Provisions stipulate that the publishing of securities research reports by securities companies and securities investment advisory agencies shall abide by laws, administrative regulations and other relevant requirements, follow the principles of independence, objectiveness, fairness and prudence, effectively prevent conflicts of interest, and treat objects under issuance in a fair manner. They shall also be prohibited from disseminating false, untrue and misleading information, and from engaging in or participating in insider trading or securities market manipulation.

Margin Financing and Securities Lending Business

The Administrative Measures for Margin Financing and Securities Lending Business for Securities Companies (《證券公司融資融券業務管理辦法》) which was amended and came into effect on July 1, 2015 has stipulated that conduct of margin financing and securities lending business by a securities company shall be subject to approval by the CSRC. Securities companies engaging in margin

financing and securities lending business shall open accounts in their own name at securities registrars, including special securities lending account, guaranteed securities account for client margin trading, securities settlement account for margin trading and capital settlement account for margin trading. Such securities companies shall also open accounts in their own name at commercial banks, including special capital account for margin financing and guaranteed capital account for client margin trading. Securities companies shall enter into client margin custody agreement with their clients and commercial banks by keeping settlement funds for client transactions under third-party custody. Securities companies may only utilize funds in the special capital account for margin financing to provide financing for clients, and securities companies may only utilize the securities in the special securities account for securities lending to provide securities lending to clients. Securities companies shall not open credit accounts for clients who have not provided the relevant information as required, or have engaged in securities trading for less than six months, or are lack of risk tolerance, or whose daily average balance of securities assets in the last 20 trading days is less than RMB500,000, or have past record of material default, and shall also not open credit accounts for shareholders and connected persons of the Company. The aggregate amount of margin financing and securities lending services provided by a securities company shall not be more than 4 times of its net capital.

According to the Guidelines of the Internal Control of Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務內部控制指引》) (amended and effective on October 26, 2011), the Implementation Rules of Shanghai Stock Exchange on Margin Financing and Securities Lending (《上海證券交易所融資融券交易實施細則》) (effective from December 12, 2016), and the Implementation Rules of the Shenzhen Stock Exchange on Margin Financing and Securities Lending (《深圳證券交易所融資融券交易實施細則》) (effective from December 2, 2016), securities companies engaging in margin financing and securities lending business shall keep clients' assets secured, and strengthen risk control and business inspection. Besides, business procedure and target securities for margin financing and securities lending business are also defined under the above Guidelines and Rules.

Pursuant to the Provisional Measures on the Supervision and Administration of the Refinancing Business (《轉融通業務監督管理試行辦法》) which was amended and came into effect on December 7, 2017, refinancing business refers to operating activities whereby a securities finance company lends out funds or securities which are owned or lawfully raised by it to other securities companies to facilitate their operations of margin financing and securities lending business. The Measures regulates the refinancing business in various aspects, including the business subject, the rules of refinancing business, sources of capital and securities, disposal of equity interest as well as supervision and management.

Agency Sales of Financial Products Business

According to the Administrative Provisions on the Agency Sales of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》) which was promulgated and came into effect on November 12, 2012, a securities company engaging in agency sales of financial products shall obtain relevant qualification and shall be subject to the review and approval of the authorized institution of the CSRC in the location of the securities company.

Agency Sales of Securities Investment Funds Business

According to the Administrative Measures for Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》) which came into effect on June 1, 2013, a securities company shall obtain relevant qualifications for sales of securities investment funds.

Private Assets Management Business

A securities company engaging in private assets management business is mainly regulated by the following laws and regulations: Guidance on the Regulation of Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (effective on April 27, 2018), Notice on Further Specifying Certain Matters Concerning the Guidance on Regulating Asset Management Business of Financial Institutions (《關於進一步明確規範金融機構資產管理業務指導意見有關事項的通知》) (effective on July 20, 2018), the Administrative Measures for Private Investment Assets Management Business of Securities and Futures Operators (《證券期貨經營機構私募資產管理業務管理辦法》) (issued and came into effect on October 22, 2018), Regulations on the Operation and Management of Private Asset Management Plans for Securities And Futures Operators (《證券期貨經營機構私募資產管理計劃運作管理規定》) (issued and came into effect on October 22, 2018), and Operating Guidance of the Guidance on the Regulation of Asset Management Business of Financial Institutions Applicable to the Collective Asset Management Scheme Business of Securities Companies (《證券公司大集合資產管理業務適用〈關於規範金融機構資產管理業務的指導意見〉操作指引》) which came into effect on November 30, 2018.

The securities and futures operation institutions (including securities companies, fund management companies, futures companies and subsidiaries legally established by the aforementioned institutions to engage in private asset management business) engaging in private investment assets management business shall satisfy the relevant conditions, including the requirements of net assets and net capital, the requirements of corporate governance structure, the conditions of internal control, senior management qualifications and staffing requirements, etc., and shall be legally authorized by the CSRC. Such asset management scheme shall have a definite and legal investment direction, clear risk return characteristics, and differentiate the asset categories the investment finally goes into, and determine the category of asset management scheme according to the relevant provisions. Where the asset management scheme invests in other asset management products, it shall clearly stipulate that the asset management products invested shall no longer invest in other asset management products other than public funds.

Securities Underwriting and Sponsorship Business

Pursuant to the Measures for the Administration of the Sponsorship of Securities Offering and Listing (《證券發行上市保薦業務管理辦法》) which was issued and came into effect on December 7, 2017, securities companies shall satisfy the relevant conditions and apply for the sponsoring institution qualification from the CSRC as required under the Measures for the Administration of the Sponsorship of Securities Offering and Listing, so as to engage in securities issuance, listing and sponsorship businesses. Sponsoring institutions shall designate an individual who has obtained sponsor representative qualification to be responsible for sponsorship duties, so as to discharge sponsorship responsibilities. No institution or individual may engage in sponsorship business without authorization from the CSRC. Issuers shall engage securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for initial public offering and listing of shares, issuance of new shares or convertible corporate bonds by listing companies, and other matters identified by the

CSRC. A securities company applying for the sponsoring institution qualification shall satisfy the relevant conditions, including the conditions of registered capital and net capital, the conditions of corporate governance and internal control, the conditions of staffing and compliance operation etc.

According to the Administrative Measures on Financial Advisory Business in the M&A and Reorganization of Listed Companies (《上市公司併購重組財務顧問業務管理辦法》) which came into effect on August 4, 2008, securities companies approved by the CSRC to qualify for providing financial advisory business in the merger & acquisition (M&A) and reorganization of listed companies may engage in the financial advisory business for the M&A and reorganization of listed companies according to the relevant requirements. The CSRC reviews on the applications submitted by financial advisor applicants for the qualification of financial advisory business in the M&A and reorganization of listed companies. Securities companies which are engaged to act as independent financial advisors of listed companies shall maintain their independence and shall not have any interest in the listed companies.

The Opinions of the CSRC on Further Promoting the Reform of New Shares Issuance System (《中國證監會關於進一步推進新股發行體制改革的意見》) which was issued and came into effect on November 30, 2013 require securities service institutions including sponsors and accounting firms etc., shall make an undertaking to the public in the public offering and listing documents: where the documents they have prepared or issued for the initial public offering of the issuers contain false records, misleading statements or material omissions that have caused losses to investors, they will compensate for such losses pursuant to the laws.

According to the Administrative Measures on Corporate Bonds Issuance and Trading (《公司債券發行與交易管理辦法》) which was issued and came into effect on January 15, 2015, the issuance of corporate bonds shall be underwritten by securities companies qualified to undertake underwriting of securities. In respect of issuance of corporate bonds, issuers shall engage bond trustee for bond holders, and such bond trustee may be the underwriter for the issuance or other institutions recognized by the CSRC. Besides, the Regulations on the Management of Enterprise Bonds (《企業債券管理條例》) which was amended and came into effect on January 8, 2011 stipulate that issuance of enterprise bonds by enterprises shall be underwritten by securities business institutions.

According to the Administrative Measures on Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) which was amended and came into effect on June 15, 2018, these measures are applicable to the issuance of shares, depository receipts or convertible corporate bonds in China by issuers, underwriting of securities in China by the securities companies and subscription of securities issued in China by investors. The measures also promulgates detailed provisions in such aspects of pricing, offering of securities, underwriting of securities, information disclosure, regulation and punishment by during participation of the issuers, securities companies and investors during securities issuance. Securities companies shall submit issuance and underwriting plans to the CSRC prior to underwriting.

According to the Guidelines for Internal Control of Investment Banking Business of Securities Companies (《證券公司投資銀行類業務內部控制指引》) (came into effect on July 1, 2018), when a securities company conducts investment banking business, it shall establish and improve its internal control system and mechanism in accordance with relevant regulations to ensure the effective implementation of internal control. This regulation promulgates detailed provisions in such aspects of internal control organization structure, internal control assurance, key control content at different

stages of the project, project management and working papers by the securities companies during their engagement in investment banking business.

According to the Securities Law, where the document, the method for issuance of corporate bonds, the financial accounting report, the listing reports, the annual report, interim report, ad hoc report and other disclosures of the issuer or the listed company contain false records, misleading representation or material omissions that caused losses to investors in the process of securities trading, the issuer or the listed company shall be liable for compensation. The directors, supervisors, senior management of the issuer and the listed company, other intermediate responsible person, and the sponsor and the underwriter(s) shall be jointly liable with the issuer or the listed company, except those who are proved to be without fault.

NEEQ Business

According to the Business Rules for the National Equities Exchange and Quotations System (for Trial Implementation) (《全國中小企業股份轉讓系統業務規則（試行）》) which was amended and came into effect on March 1, 2014, a securities company may engage in all or some of the following business: the recommendation business, the brokerage business and the market-making business, on NEEQ. To carry out these businesses, a securities company shall apply to and file with the NEEQ Company. A securities company shall have the qualifications of securities underwriting and sponsorship business for recommendation business; the qualification of securities brokerage business for brokerage business; and the qualifications of securities proprietary business for market-making business.

Proprietary Securities Trading Business

According to the Securities Law, the Regulations on Supervision and Administration of Securities Firms and the Guidelines for Proprietary Securities Trading Business of Securities Companies (《證券公司證券自營業務指引》) (issued and came into effect on November 11, 2005), securities companies engaging in proprietary securities trading shall be limited to the trading of lawfully and publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authority of the State Council. A securities company that engages in proprietary securities trading business shall register its proprietary securities account under the company's name. A securities company is required to conduct proprietary securities trading business under its name with its own capital or funds legally raised by it. For a securities company engaging in proprietary securities trading business, the risk control indicators of the company, such as the proportion of the total value of proprietary securities to the net capital of the company, the proportion of the value of a single security to the net capital of the company, and the proportion of the quantity held in respect of a single security to the total issued volume of the security, shall comply with the requirements of the securities regulatory authority of the State Council.

Stock-options Market Making Business

Pursuant to the Pilot Measures for Administration of Trading of Stock Options (《股票期權交易試點管理辦法》) which was issued and came into effect on January 9, 2015, securities firms may engage in stock option brokerage business, proprietary trading business and market-making business. Futures companies may engage in stock option brokerage business, and spot securities brokerage business relating to covered call and exercise of stock options.

According to the Notice on Further Strengthening the Self-discipline of the OTC Options Business of Securities Companies (《關於進一步加強證券公司場外期權業務自律管理的通知》) (came into effect on May 28, 2018), securities companies that engage in OTC option business are divided into primary dealers and secondary dealers. A securities company that fails to become a dealer may not conduct OTC option business with its customers.

Assets Securitization Business

According to the Administrative Rules for Assets Securitization Business of Securities Companies and Subsidiaries of Fund Management Companies (《證券公司及基金管理公司子公司資產證券化業務管理規定》) (issued and effective from November 19, 2014), Securities companies engaging in asset securitization shall have business qualification of client asset management; a subsidiary of fund management company shall be established by a securities investment fund management company and shall have business qualification for management of assets of specific clients. Manager who establish special plans and issue asset-backed securities shall also comply with the following conditions: has a comprehensive compliance and risk control system and risk management measures and is able to control business risk effectively, and has not been subject to administrative penalties due to material breach in laws and regulations during the past year. The manager shall not act as follows: fails to book proceeds raised in accounts or carries out other forms of off-ledger operations; raises funds beyond the scale agreed in the document; embezzles or misappropriates special scheme assets; creates guarantee with special scheme assets or incurs other contingent liabilities; manages and utilizes special scheme assets in violation of the agreed terms contained in the document of the scheme; performs other conduct prohibited by laws, administrative regulations and the CSRC.

Stock-backed Lending Transaction Business

According to the Measures on Stock-backed Lending Transaction and Registration and Settlement Business (《股票質押式回購交易及登記結算業務辦法》) (effective on March 12, 2018) promulgated jointly by CSDC and each of the Shanghai Stock Exchange and Shenzhen Stock Exchange, the Shanghai Stock Exchange and Shenzhen Stock Exchange shall implement management of trading authorization of securities companies that participate in Stock-backed Lending Transaction. Securities companies shall establish client qualification review systems. The fund receiver shall not be a financial institution or other institutions engaged in loans, private security investment or private equity investment, personal lending, etc., or products issued by the aforementioned institutions. Where a securities company acts as a fund lending party, A shares of the company pledged to such securities company shall not exceed 30% of the total shares of the company. Where a collective asset management scheme or a specialized asset management scheme acts as a fund lending party, A shares of the company pledged to such collective asset management scheme or specialized asset management scheme shall not exceed 15% of the total shares of the company. If the fund provider is a securities company, a collective asset management scheme managed by a securities company or a targeted asset management client, the securities company shall sign a Business Agreement with the fund receiver. Such Business Agreement should clearly stipulate that the provided fund for fund receiver shall be deposited in a special account opened by the designated bank of the securities company and used for the production and operation of the entity economy.

According to Several Provisions on the Reduction of Shares Held by the Shareholders, Directors, Supervisors, and Senior Management of the Listed Companies (《上市公司股東、董監高減

持股份的若干規定》) (effective on May 26, 2017), the Detailed Implementing Rules of the Shenzhen Stock Exchange for the Reduction of Shares held by Shareholders, Directors, Supervisors and Senior Management of the Listed Companies (《深圳證券交易所上市股東及董事、監事、高級管理人員減持股份實施細則》) (effective on May 27, 2017) and the Detailed Implementing Rules of the Shanghai Stock Exchange for the Reduction of Shares held by Shareholders, Directors, Supervisors and Senior Executives of the Listed Companies (《上海證券交易所上市公司股東及董事、監事、高級管理人員減持股份實施細則》) (effective on May 27, 2017), where principal shareholders (the controlling shareholders and shareholders holding 5% or more shares of listed companies, hereinafter referred to as principal shareholders) or specific shareholders (shareholders other than principal shareholders who hold shares issued before IPO of companies and shares privately offered by listed companies) reduce shares by centralized bidding transactions, the total shares reduction shall not exceed 1% of the company's total shares in any consecutive 90 days; where principal shareholders or specific shareholders reduce shares by block trading, the total number of shares sold shall not exceed 2% of the company's total shares in any consecutive 90 days; where principal shareholders or specific shareholders reduce shares by means of agreement-based transfer, the proportion of shares transferred to a single transferee shall not be lower than 5% of the company's total number of shares. Reduction of shareholding due to mandatory judicial enforcement, performance of share pledge agreement, etc. shall be in compliance with above provisions and rules.

OTC Derivatives Business

Our OTC derivatives business is mainly regulated by Norms for OTC Trading of Financial Derivatives of Securities Companies (《證券公司金融衍生品櫃檯交易業務規範》), which came into effect on March 15, 2013, Guidelines for the Management of OTC Trading Risk for Financial Derivatives of Securities Companies, (《證券公司金融衍生品櫃檯交易風險管理指引》), which came into effect on March 15, 2013, and Guidelines for the Inter-institution OTC Trading via Price and Service System of Privately Offered Products (for Trial Implementation) (《機構間私募產品報價與服務系統場外衍生品交易業務指引（試行）》), which came into effect on May 12, 2017 etc.

Shanghai-Hong Kong Stock Connect

Pursuant to the Joint Announcement on Launching the Pilot Program of Shanghai-Hong Kong Stock Connect to Establish Mutual Stock Market Access (《關於開展滬港股票市場交易互聯互通機制試點的公告》) issued by the CSRC and the SFC on April 10, 2014, the Memorandum of Understanding between the CSRC and the SFC on Strengthening Regulatory and Enforcement Cooperation under the Shanghai-Hong Kong Stock Connect (《滬港通項目下中國證監會與香港證監會加強監管執法合作備忘錄》) signed on October 17, 2014, Certain Provisions on Interconnection Mechanism for Transactions in the Mainland and Hong Kong Stock Markets (《內地與香港股票市場交易互聯互通機制若干規定》) issued by the CSRC on September 30, 2016, and the Measures of the Shanghai Stock Exchange on the Pilot Shanghai-Hong Kong Stock Connect (《上海證券交易所滬港通試點辦法》) which came into effect on July 25, 2016 and others, the Shanghai Stock Exchange and the Hong Kong Stock Exchange enable investors of the two sides to trade shares within specified scope listed on the other's stock exchange through local securities companies (or brokers), the investment scope may be adjusted by both parties based on the status of the pilot program. The Shanghai-Hong Kong Stock Connect is comprised of the Northbound Trading and the Southbound Trading. Trading under the Shanghai-Hong Kong Stock Connect will initially be subject to a maximum RMB cross-boundary investment quota, together with a daily quota that will be monitored on a real time basis. Quotas may be adjusted by both sides based on the status of the pilot program. Initially, domestic investors participating in the Southbound Trading shall meet the required qualifications.

Shenzhen-Hong Kong Stock Connect

Pursuant to the joint announcements issued by CSRC and SFC on November 25, 2016 and the Implementation Rules for the Shenzhen-Hong Kong Stock Connect Business of Shenzhen Stock Exchange (《深圳證券交易所深港通業務實施辦法》) which came into effect on September 17, 2018, Shenzhen Stock Exchange, Hong Kong Stock Exchange, China Securities Depository and Clearing Corporation Limited and HKSCC officially activated the Shenzhen-Hong Kong Stock Connect. Trading in shares under the Shenzhen-Hong Kong Stock Connect commenced on December 5, 2016. Shenzhen-Hong Kong Stock Connect comprises two parts, namely Northbound Trading and Southbound Trading. The Stock Exchange monitors the usage of daily limits under Northbound Trading on a real-time basis and announces such usage in designated websites. Investors participating in Shenzhen-Hong Kong Stock Connect should meet relevant technical standards and other requirements.

Futures Business

The Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) which came into effect on December 7, 2017 and the Administrative Regulations on Futures Trading (《期貨交易管理條例》) which came into effect on March 1, 2017, provide that futures companies carry out operations under the licensing system. The CSRC will issue licenses according to the types of commodity futures and financial futures businesses. Apart from applying to operate domestic futures brokerage business, futures companies may also apply for the operations of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC, so as to obtain business qualification. Futures trading shall strictly execute the margin system. Futures companies shall not engage, directly or under any pretext, in proprietary futures business. A futures company accepts clients' entrust to conduct brokerage business, conducts futures trading in its own name on behalf of clients, and the outcome of transactions shall be borne by the clients.

According to the Interim Measures for Futures Investment Consultancy Business of Futures Companies (《期貨公司期貨投資諮詢業務試行辦法》) which came into effect on May 1, 2011, to engage in futures investment consultancy business, a futures company shall obtain from the CSRC the approval and qualification of futures investment consultancy business. Staff in a futures company engaging in futures investment consultancy business shall obtain the practice qualification for futures investment consultancy business.

According to the Working Guidance for Engagement in Pilot Business Mainly on Risk Management Services by Subsidiaries established by Futures Companies (《期貨公司設立子公司開展以風險管理服務為主的業務試點工作指引》) (came into effect on February 1, 2013), a subsidiary of a future company is a company that is controlled by a future company of more than 50%, principally engages in risk management business, including warehouse receipt service, cooperation hedging, pricing service and basis trading. A futures company shall, subject to the satisfaction of relevant requirements, applies to the CFA for the filing of the subsidiary's establishment.

Mutual Fund Management Business

According to the Securities Investment Fund Law, a fund manager of a publicly offered fund shall be undertaken by fund management companies or other institutions as authorized by the securities supervision and management authorities under the State Council pursuant to relevant provisions. The public fund offering publicly-offered fund shall be registered with the securities regulatory authority

under the State Council. Without registration, the fund shall not make any public offering, directly or under any pretext.

The Administrative Measures on Operations of subscription convening publicly-offered of Securities Investment Funds (《公開募集證券投資基金運作管理辦法》) which came into effect on August 8, 2014 has set up provisions on public fund offering, the subscription convening publicly-offered, redemption and trading of fund unit, the investment of fund assets, the distribution of fund income, the subscription convening publicly-offered of fund share holders' meetings, and other fund operational activities.

The Administrative Measures of Information Disclosure of Securities Investment Funds (《證券投資基金信息披露管理辦法》) (came into effect on July 1, 2004) regulates the category of the information that the fund manager of a publicly-offered fund should disclose of, and the format, media, methods and timeliness requirements thereto.

Private Fund Management Business

According to the Interim Measures for the Supervision and Administration of Privately Offered Investment Funds (《私募投資基金監督管理暫行辦法》) (with effect from August 21, 2014), a privately offered fund management institution shall apply to the AMAC for registration pursuant to the AMAC's provisions. Upon the completion of the offering of a privately offered fund, the privately offered fund manager shall complete the filing formalities for the fund in accordance with the provisions of the AMAC.

According to the Management Rules for the Private Investment Funds Subsidiaries under Securities Companies, private funds subsidiaries engaged in the private investment funds business shall comply with the laws and regulations, the regulatory requirements and the provisions of the Rules.

Securities companies should establish a clear delineation of the business scope between securities companies and private funds subsidiaries, and between private funds subsidiaries and their other subsidiaries to prevent conflict of interest and the peer competition.

Alternative Investment Business

According to the Management Rules for the Alternative Investment Subsidiaries under Securities Firms (《證券公司另類投資子公司管理規範》) which came into effect from December 30, 2016, an alternative investment subsidiary under securities firms shall comply with relevant laws, regulations, regulatory requirements and above Management Rules in case it is engaged in the financial product, equity interest or other alternative investment business other than those items listed in the List of Proprietary Securities Investment Items for Securities Firms. Alternative subsidiaries are not allowed to engage in business except for investment.

Clear division of business scope between securities firms and their alternative subsidiaries, and between alternative subsidiaries and their other subsidiaries, shall be established to prevent conflict of interest and benefit transmission.

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

(1) Corporate Governance

Securities companies are required to comply with the corporate governance requirements relating to composition, operation, convening and voting procedure of their general meeting, board of directors and board of supervisors under the Company Law, the Securities Law, the Regulations on Supervision and Administration of Securities Companies, the Rules for Governance of Securities Companies (《證券公司治理準則》) which came into effect on January 1, 2013, the Guidance for the Internal Control of Securities Companies (《證券公司內部控制指引》) which came into effect on December 15, 2003 and the Notice on Effective Appraisal of the Internal Control of Securities Companies (《關於做好證券公司內部控制評審工作的通知》) which came into effect on October 4, 2001.

For a securities company engaging in two or more than two businesses among securities brokerage, asset management, margin financing and securities lending, and securities underwriting and sponsorship, a remuneration and nomination committee, an audit committee and a risk control committee shall be established by the board of directors of the company to exercise the relevant duties and rights designated by its articles of association. Person in charge of the remuneration and nomination committee and the audit committee shall be independent directors.

The Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Companies (《證券公司董事、監事和高級管理人員任職資格監管辦法》) amended and came into effect on October 19, 2012, provided further requirements on the qualifications of directors, supervisors and senior management officers. Directors, supervisors and senior management officers of securities companies shall obtain the appointment qualifications approved by the CSRC's local branches before taking office.

(2) Risk Control

The Securities Law stipulates the following requirements for the risk control system of securities companies. A securities company shall make provision for trading risk from the annual profits (after tax) to cover the loss of securities trading. It shall establish and enhance its internal control system, and adopt effective isolation measures to prevent conflicts of interest between the company and its clients and among different clients.

The Regulations on Risk Handling of Securities Companies (《證券公司風險處置條例》) which was amended and came into effect on February 6, 2016 provide that the CSRC is responsible for the organization, coordination and supervision of risk handling in securities companies. In the event that the risk indicators of a securities company do not comply with the regulations or material risk arises, the CSRC shall adopt risk handling measures, including temporary closure for rectification, custody, takeover, administrative reorganization, bankruptcy, liquidation and restructuring.

Pursuant to the Administrative Measures on Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》), amended on June 16, 2016 and came into effect on October 1, 2016, a securities company shall calculate the capital reserves for market risk, credit risk and operation risk according to the basis of calculation for risk capital reserves of securities companies as required by the CSRC, calculate the net capital according to the basis of calculation for net capital of securities

companies as required by the CSRC, and submit a monthly report on supervision of risk control indicators to the CSRC and its local branches within 7 business days from the end of each month.

The Provisions on the Basis of Calculation for Risk Control Indicators of Securities Companies (《證券公司風險控制指標計算標準規定》) which was issued on June 16, 2016 provide different basis of calculation for different risk capital reserves of securities companies based on their different businesses and different types of securities companies.

Pursuant to the Norms for the Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》), amended and came into effect on December 30, 2016, securities companies shall implement all-rounded risk management to avoid various types of risks arising from business operation, such as liquidity risk, market risk, credit risk, operating risk and reputation risk, and shall establish and improve an all-rounded risk management system consistent with their respective development strategies, including a practicable management regime, a sound organization structure, a reliable information technology system, a quantitative risk indication system, a team of professionals, an effective risk response mechanism and established risk management culture.

Pursuant to the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》) which was amended and came into effect on December 30, 2016, securities companies shall strengthen liquidity risk management and establish a sound liquidity risk management system for effective identification, measurement, monitoring and control of liquidity risk, to ensure its liquidity requirements could be satisfied timely at reasonable costs.

(3) Compliance Management

According to Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》) (effective on October 1, 2017), securities and fund institution's compliance management shall cover all the business, divisions, branches, subsidiaries at all levels and all the staffs, and shall be carried out throughout various stages such as decision-making, implementation, supervision and feedback. Securities and fund institutions shall have chief compliance officers. A chief compliance officer is a senior management who is directly responsible to the board of directors, and shall examine, supervise and inspect the compliance of the operation management and practicing behavior of the company and its staff. The appointment of the chief compliance officer of the securities company shall be subject to approval from relevant local branches of the CSRC. The chief compliance officer of a securities and fund institution shall organize the drafting of basic compliance management rules and other compliance management rules, and urge and guide the implementation of such rules by all subordinate entities. A securities and fund institution shall submit the annual compliance report to relevant local branches of the CSRC when submitting the annual report.

According to Guidelines for the Compliance Management of Securities Companies (《證券公司合規管理實施指引》) (Effective on October 1, 2017), a securities company shall formulate the basic compliance management rules, which would be implemented upon deliberations of the board of directors. The chief compliance officer shall not concurrently take charge of the business department and branches with business functions and shall not be in charge of the business department and branches with business functions as well as shall not concurrently hold positions relating to business operations in subordinate subsidiaries. A securities company may not assign or impose business assessment indicators and tasks to the chief compliance officer, compliance department and other compliance management personnel.

(4) Classified Regulation

Pursuant to the Provision on Classified Regulation of Securities Companies (《證券公司分類監管規定》) which was amended and came into effect on July 6, 2017, the CSRC classifies the securities companies into eleven grades under five main classes from high to low levels, including class A (grades AAA, AA, A), class B (grades BBB, BB, B), class C (grades CCC, CC, C), class D and class E in terms of their risk control capability, based on the assessment results by the CSRC in relation to the assessment indicators and standards of risk control capability, market competitiveness and continuous compliance.

The "regulatory point" regime is one of the systems adopted by the CSRC to evaluate the continuous compliance of a PRC securities company. The benchmark score for a PRC securities company under normal operation is 100 points. The regulatory score of a PRC securities company is primarily determined by adding or deducting points to or from a 100-point benchmark score based on a number of factors, including the company's indicators and standards of risk control capability, market competitiveness and continuous compliance with regulatory requirements. The risk management capability of a securities company shall be evaluated mainly by virtue of six indicators: capital adequacy, corporate governance and regulatory-compliance management, comprehensive risk management, information system safety, protection of clients' rights and interests and information disclosure, according to the Indicators and Standards for the Evaluation of the Risk Management Capability of Securities Companies (《證券公司風險管理能力評價指標與標準》) to reflect the company's capability to manage liquidity risks, regulatory-compliance risks, market risks, credit risks, technical risks, operational risks, etc. The market competitiveness of a securities company shall be evaluated mainly by virtue of the situations of its brokerage business, investment banking business, asset management business, comprehensive strength and innovation ability. The continuous regulatory-compliance status shall be evaluated mainly by virtue of the criminal punishments given by the judicial organs, the administrative punishments given or regulatory measures taken by the CSRC and its dispatched offices and the disciplinary action and self-regulatory measure taken by the self-regulatory organization of the securities and futures industry.

The CSRC will deduct the corresponding regulatory points in relation to the specific incidents occurred in a PRC securities company during the appraisal period, e.g. a PRC securities company is subject to administrative punishment measures or regulatory measures adopted by the CSRC and its branches, criminal punishment by the judicial authorities or disciplinary action by the self-governance organization of the securities industry for an illegal act or irregularity, while the CSRC will add the regulatory points where a PRC securities company satisfies with certain criteria such as it continuously meet the major risk control indicators during the last two or three appraisal period or the net capital of a PRC securities company reaches ten times of the required standard etc.

According to the market development conditions and the principles of prudent regulation, and based on the opinions sought from industry participants, the CSRC has formulated and timely adjusted the appraisal benchmarks and standards for securities companies. The classification of securities companies is implemented by the CSRC and its delegated local branches, appraisals are conducted on an annual basis and the appraisal period starts on May 1 of the previous year and ends on April 30 of the current year. According to the principles of classified regulation, the CSRC prescribes different standards for risk control indicators and percentages for calculation of risk capital reserves for different classes of securities companies, and differentiation in treatment will be applied to such companies in the aspects of allocation of regulatory resources, and frequency of on-site and off-site inspections and so on.

According to the industry development conditions, the CSRC annually sets the ratio of Class A, B and C companies based on the previous year's result and determines the number of companies per Class and per Grade based on the distribution of the current year's regulatory points, among which the regulatory points for companies with rating of Class B Grade BB or above should be higher than the 100-point benchmark score. For a securities company which receives a risk disposal measure such as being legally ordered to stop business for rectification, being in the custody of or taken over by other designated institutions or being subject to administrative reorganization, if the evaluation score is zero, it shall be of Class E; and if the evaluation score is below 60, it shall be of Class D.

The ratings of the PRC securities companies may be used as: (i) prudential requirements for securities companies to apply for new businesses, establishment of new business outlets, public offering of shares and listing; (ii) one of the basis for determining the experiment scope and promotion sequence of new businesses and products; and (iii) one of the basis for the China Securities Investor Protection Fund Corporation Limited to determine the specific proportion of the securities investor protection fund to be paid by securities companies at different ratings.

Corporate Governance and Risk Control of Futures Companies

(1) Corporate Governance

Pursuant to the Measures for the Supervision and Administration of Futures Companies (《期貨公司監督管理辦法》), the CSRC implements a qualification management system for directors, supervisors, senior management and other futures practitioners of futures companies and other futures operating institutions. The business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders, and shall be independently operated and audited.

The Administrative Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格管理辦法》), which came into effect on July 4, 2007, has further strengthened the qualification management on the directors, supervisors and senior management of futures companies. The State Council's Decision on the Cancelation and Adjustment of a Series of Items Requiring Administrative Approval (《國務院關於取消和調整一批行政審批項目等事項的決定》) which was issued and came into effect on February 24, 2015, has canceled the approval requirement for appointment qualification of directors, supervisors and senior management officers of futures companies, and the CSRC Announcement [2015] No. 11 has already changed such administrative permission to post-event reporting management.

(2) Risk Control

According to the requirements of the Measures for the Supervision and Administration of Futures Companies, the Regulations on the Administration of Futures Trading and the Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》), amended on April 18, 2017 and came into effect on October 1, 2017, a futures company engaging in futures brokerage business and other futures business at the same time shall strictly implement systems for separation of business and capital, and shall be prohibited from mixed operations. The CSRC formulates regulations on the risk regulatory indicators such as the ratio of net capital to net assets, the ratio of net capital to the business scale of domestic futures brokerage and overseas futures brokerage, and the ratio of current assets to current liabilities of futures companies. The CSRC also sets out requirements on the operating conditions, risk management, internal controls, custody of margin

deposits and related party transactions of futures companies and their business outlets. Futures companies shall establish risk management departments or positions to manage and control operating risk of the companies, appoint a chief risk officer to supervise and inspect the compliance of its operation management and risk management, and establish compliance review departments or positions to review and inspect the legal compliance of the operation and management behaviors of the companies. Futures companies shall adopt unified management over their branches, not allowed to operate or manage business outlets with others on a joint-venture or cooperation basis, and not allowed to contract, lease or entrust others to operate and manage business outlets.

(3) Classified Regulation

Pursuant to the Provision on Classified Regulation of Futures Companies (《期貨公司分類監管規定》) which came into effect on April 12, 2011, the CSRC regularly rates futures companies. Under such rating, futures companies are classified into eleven grades under five main classes from high to low levels, including class A (AAA, AA, A), class B (BBB, BB, B), class C (CCC, CC, C), class D and class E, based on the risk management capability, market competitiveness, cultivation and development of institutional investors, and continuous compliance of the futures companies. According to the principles of classified regulation, the CSRC prescribes different contribution ratios to the Futures Investor Protection Fund for different classes of futures companies, and differentiation in treatment will be applied in the aspects of allocation of regulatory resources, and frequency of on-site and off-site inspections and so on.

Corporate Governance and Risk Control of Mutual Fund Management Companies

(1) Corporate Governance

Pursuant to the Securities Investment Funds Law, the Administrative Measures for Securities Investment Fund Management Companies and the Securities Investment Fund Management Company Governance Guidelines (Trial Implementation) (《證券投資基金管理公司治理準則（試行）》) which came into effect on June 15, 2006 as well as other relevant laws and regulations, a mutual fund management company establish and organize a governance framework with sound structure, clear delineation of duties and responsibilities, effective check and balance and supervision, and reasonable incentives and constraints, to maintain regulated operation of the company and protect the interest of fund unit holder as the priority. Corporate governance shall conform to the basic principles of conferring priority to the interest of fund unit holder.

A mutual fund management company shall also establish among its shareholders a segregation system for key information on business and clients. Shareholders of a mutual fund management company and their de facto controllers shall exercise their rights in accordance with laws through the general meetings and shall not bypass the general meetings and the board of directors to appoint or remove directors, supervisors, senior management officers of mutual fund management company, or directly interfere with the operational management, investment and operation of fund assets of the mutual fund management company. Furthermore they shall not request the mutual fund management company to collaborate with them in business activities, such as underwriting of securities and securities investment, which may derogate the legitimate interest of fund unit holders and other parties.

The Administrative Measures on the Employment of Senior Management Personnel of the Securities Investment Fund Industry (《證券投資基金行業高級管理人員任職管理辦法》), which came into effect on October 1, 2004, regulate the management system of qualifications with regard to

directors, supervisors, general managers, deputy general managers and inspector generals and other senior management personnel of mutual fund management companies, and specify the qualification requirements, application and approval of appointment qualifications, code of conduct, supervision and management for such persons, etc.

(2) Risk Control

Pursuant to the Administrative Measures for Securities Investment Fund Management Companies, the CSRC may establish a risk control indicator monitoring system and a comprehensive regulatory evaluation system for mutual fund management companies. Where the relevant indicators of a mutual fund management company do not comply with the requirements, the CSRC may order the fund management company to rectify within a stipulated period, and may adopt administrative regulatory measures such as requiring the company to increase registered capital, raising the percentage for provision of risk reserves, and suspending part or all of its business operations, etc.

Pursuant to the Securities Investment Fund Law and the Administrative Measures on Operations of Public Offering of Securities Investment Funds (《公開募集證券投資基金運作管理辦法》) which came into effect on August 8, 2014, fund managers applying fund assets to investments shall comply with the required investment ratios as prescribed by laws and regulations.

Pursuant to the Guiding Opinions on the Fair Trading System of Securities Investment Fund Management Companies (《證券投資基金管理公司公平交易制度指導意見》) which came into effect on August 3, 2011, a company shall strictly comply with the relevant provisions in relation to fair transactions under relevant laws and regulations, fairly treat different investment portfolios during its investment management activities and shall be prohibited from passing benefits between different investment portfolios directly or through transaction arrangement with third parties. The company shall segregate investment management function from trading execution function, implement a centralized trading system, establish and improve a fair trading distribution system to ensure fair trading execution opportunities for all portfolios.

Pursuant to the Provisional Measures on Supervision and Administration of Risk Reserve of Public-offered Securities Investment Funds (《公開募集證券投資基金風險準備金監督管理暫行辦法》) which came into effect on January 1, 2014, fund managers shall establish systems for risk reserve management, formulate procedures for the withdrawal, transfer, investment management, application and payment of risk reserves, and keep records for future reference.

(3) Compliance Management

According to Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》), securities and fund institution's compliance management shall cover all the business, divisions, branches, subsidiaries at all levels and all the staffs, and involve all aspects such as decision, execution, supervision and feedback. The board of directors of a securities and fund institution shall determine the compliance management objectives of the company, assume responsibility for the effectiveness of compliance management, and perform the relevant compliance management duties. The senior management personnel of the securities and fund institution are responsible for implementing the compliance management objectives, assuming responsibility for compliance operations, and performing relevant compliance management duties. All departments, all branches and

all subsidiaries at all levels are responsible for implementing the compliance management objectives of the securities and fund institution and are responsible for compliance operations of the securities and fund institution. Securities and fund institutions shall have chief compliance officers. A chief compliance officer is a senior executive who is directly responsible to the board of directors, and shall examine, supervise and inspect the compliance of the operation management and practicing behavior of the company and its staff members. The appointment of the chief compliance officer of the securities company shall be subject to approval from relevant agencies of the CSRC. The chief compliance officer of a securities and fund institution shall organize the drafting of the basic compliance management rules and other compliance management rules, and urge and guide the implementation of such rules by all subordinate entities. A securities and fund institution shall submit the annual compliance report to relevant agencies of the CSRC when submitting the annual report.

Other Regulations

Foreign Exchange Control

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and cannot freely convertible into foreign currencies. SAFE, under the authority of the PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the Administrative Regulations on Foreign Exchange (《外匯管理條例》) which came into effect on August 5, 2008, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to restrictions in China, while capital account items are subject to approval from the SAFE.

According to the Administrative Regulations on Foreign Exchange, foreign exchange income under current account items may, in accordance with relevant provisions of the State, be retained or sold to any financial institution engaged in the foreign exchange settlement and sale business. Any foreign exchange income under capital account items may be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, provided that an approval shall be obtained from the relevant foreign exchange administrative authority, except approval is not required by the State. PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, by producing valid receipts and proof of transactions. Foreign-invested enterprises which need foreign currency for the distribution of profits to their shareholders, and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign currency, may submit the required supporting documents pursuant to the relevant resolutions of general meeting or board resolutions on the distribution of profits to effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks. Convertibility of foreign currency in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE or its relevant branch.

The Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) which came into effect on December 26, 2014, sets out provisions for, inter alia, the business registration, account opening and use, cross-border income and expenditure and capital exchange involved in the overseas listing of domestic companies.

According to the State Council's Decision on the Cancelation and Adjustment of a Series of Items Requiring Administrative Approval which came into effect on October 23, 2014, the SAFE and its branches abolished the approval procedure of remittance and exchange settlement of proceeds raised overseas from the overseas-listed foreign shares of domestic companies.

The Provisions on Foreign Exchange Control in connection with Securities Investments in China by Qualified Foreign Institutional Investors which came into effect on June 10, 2018 provide that the Chinese government shall adopt a quota management system on the investments in domestic securities by the qualified foreign institutional investors. SAFE implements the administration of filing and approval on the investment quota of the individual qualified foreign institutional investors.

As to the exchange rate of the Renminbi, on July 21, 2005, the PRC Government adopted a more flexible floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. On June 19, 2010, the PBOC announced that the PRC Government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. In April 2012, the PBOC enlarged the floating band for the trading price of the Renminbi against the US dollar on the inter-bank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of the Renminbi against the US dollar on the interbank spot exchange market to 2.0% around the central parity rate. In August 2015, the PBOC changed the way it calculates the mid-point price of the Renminbi against the US dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign exchange demand and supply as well as changes in major currency rates.

Information Disclosure

Information Disclosure of Securities Companies

The Notice on the Relevant Issues Regarding the Information Disclosure of Securities Companies (關於證券公司信息公示有關事項的通知), which came into effect on July 25, 2006, requires a securities company to disclose information such as general information, operating branches, business license type, products and senior management through the websites of the SAC and the securities company, etc.

The Rules on the Content and Format of Annual Reports of Securities Companies (《證券公司年度報告內容與格式準則》), which came into effect on January 1, 2014, require a securities company to prepare its annual report as required under these rules and submit the annual report to the CSRC within 4 months after the end of each financial year. Other than this requirement, a securities company that has publicly issued its securities shall also prepare and disclose its annual reports in accordance with the relevant information disclosure provisions for companies with public issuance of securities. A securities company that has not publicly issued securities shall prepare and publicly disclose the information as required under these rules as well as the text of its audit report and its audited financial statements (excluding the notes).

The Rules on Strengthening the Supervision and Administration of Listed Securities Companies (《關於加強上市證券公司監管的規定》) which were amended and came into effect on June 30, 2010, require timely information disclosure of regular reports and ad hoc reports by listed securities companies within the prescribed period and provide that listed companies shall establish a sound information management system in accordance with the characteristics of the securities industry

in the PRC, their practices and general regulations regarding information disclosure by listed companies.

Information Disclosure of Futures Companies

According to the Management Regulations on Information Publication of Futures Companies (《期貨公司信息公示管理規定》), which came into effective on October 22, 2009, futures companies shall disclose the basic situation of the company and its branches, the information of its senior management and business personnel, its shareholder(s), and its credit records on the information disclosure platform of futures companies designated by the CSRC.

Information Disclosure of Public Funds Management Companies

The Administrative Measures of Information Disclosure of Securities Investment Funds (《證券投資基金信息披露管理辦法》) require that mutual funds management companies disclose information as required by the above Administrative through the national newspaper designated by the CSRC and websites of the fund managers and fund custodians within the time stipulated by the CSRC, and guarantee that investors could have access to or copy the publicly disclosed information in accordance with the time and method agreed in the fund contract.

Information Disclosure of A Share Listed Companies

In addition, as an A share listed company, we should comply with laws and regulations, such as the Company Law, the Securities Law, the Administrative Measures of Information Disclosure of Listed Companies (《上市公司信息披露管理辦法》) and SZSE Listing Rule, and the information disclosure requirements for A share listed companies of the CSRC and the Shenzhen Stock Exchange.

Anti-money Laundering

We shall comply with the requirements related to anti-money laundering stipulated in the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) which came into effect on January 1, 2007, the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》) which came into effect on January 1, 2007, the Measures on Administration of Identification of Clients and Preservation of Client Identity Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) which came into effect on August 1, 2007, the Measures on the Anti-money Laundering by Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) which came into effect on October 1, 2010, the Guidelines for Risk Assessment of Money Laundering and Financing of Terrorism and for Client Classification Management in Financial Institutions (《金融機構洗錢和恐怖融資風險評估及客戶分類管理指引》) which came into effect on January 5, 2013 the Administrative Measures on Reporting of Large Amount Transactions and Suspicious Transactions of Financial Institutions (《金融機構大額交易和可疑交易報告管理辦法》) which was amended and came into effect on July 26, 2018, and the Provisional Guidance on Risk Management of Money Laundering and Terrorism Financing of Corporate Financial Institutions (《法人金融機構洗錢和恐怖融資風險管理指引（試行）》) (effective on January 1, 2019).

The Measures on the Anti-money Laundering by Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) further stipulates the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in

sales of funds business. Securities and futures operating entities shall establish and enhance internal control systems for anti-money laundering.

According to the Provisional Guidance on Money Laundering and Terrorism Financing Risks of Corporate Financial Institutions (《法人金融機構洗錢和恐怖融資風險管理指引（試行）》), corporate financial institutions should attach great importance to money laundering, terrorist financing and proliferation financing risk management, and fully understand the risk of money laundering that may be exploited by illegal criminal activities in the course of conducting business and operational management.

Anti-terrorism

Pursuant to the Administrative Measures on Freezing of Assets Involving Terrorist Activities (《涉及恐怖活動資產凍結管理辦法》) which came into effect on January 10, 2014, financial institutions and special non-financial institutions established in the PRC shall freeze the related assets strictly in accordance with the list of terrorist organizations and list of persons involving in terrorism as well as the decisions to freeze assets issued by the Ministry of Public Security.

The International Convention for the Suppression of the Financing of Terrorism (《制止向恐怖主義提供資助的國際公約》) appeals for enhancement of international cooperation between countries to formulate and adopt effective measures to prevent financing the terrorism as well as suppressing terrorism through prosecuting and punishing terrorist acts. The PRC Government ratified this convention in 2006 with reservations.

Anti -corruption

The Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), which was amended on November 4, 2017 and came into effect on January 1, 2018, requires that business dealers be prohibited from using properties or other means to bribe the officers of transaction parties, or entities or individuals entrusted by the transaction parties to process relevant issues, or from appropriating their authority of office or influence to affect the transaction entities or individuals, so as to secure business opportunities or competition advantages. Criminal liability would be investigated where such bribery behaviors commit a crime. The Interim Provisions on the Prohibition of Commercial Bribery Behavior (《關於禁止商業賄賂行為的暫行規定》) which was issued by the State Administration for Industry and Commerce and came into effect on November 15, 1996, further stipulated the constitution and legal liabilities of commercial bribery.

The United Nations Convention against Corruption (《聯合國反腐敗公約》) aims to promote and enhance various measures for preventing and combating corruption in a more effective and powerful way, to promote, facilitate and support international cooperation and technical assistance in preventing and combating corruption, including asset recovery, and to encourage integrity, accountability and proper management of public affairs and properties. The PRC Government ratified this convention in 2005 with reservations.

The Party Committee

According to the Guiding Opinions of the General Office of the State Council on Further Improving the Corporate Governance Structure of State owned Enterprises (《國務院辦公廳關於進一步完善國有企業法人治理結構的指導意見》, effective on April 24, 2017), inter alia, the legal status of

party organization shall be specified in the corporate governance structure of state-owned enterprises, the overall of party constitution work shall be incorporated into the constitution of state-owned enterprises, and the responsibilities and execution methods of party organizations shall be specified in the decision-making, implementation, supervision of the enterprises, thus allowing the party organization becoming an integral part of corporate governance structure. We have to capitalize on the leadership and political core of the party organizations, and lead the ideological and political work of enterprises. The Party's Committee shall support the board of directors, the board of supervisors and the management to perform their duties according to law, so as to ensure that the guidelines and policies of the party and the state shall be implemented.

Regulatory Reforms and Innovations

In recent years, the PRC Government has deepened reforms, further simplified and deregulated administrative measures, and the State Council and the CSRC have promulgated a number of regulations to promote the reforms and innovations of the securities industry.

Pursuant to Certain Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (《國務院關於進一步促進資本市場健康發展的若干意見》) which came into effect on May 8, 2014, a multi-tiered stock market shall be developed by actively and steadily promoting the reform of share offer system into a registration system, speeding up the establishment of a multi-tiered equity market and encouraging market-driven merger and acquisition and restructuring activities; a private equity market shall be cultivated by establishing a sound private equity offering system and developing private equity investment funds; and the capital market shall be further opened up by facilitating cross-border investment and financing of domestic and foreign entities, gradually improving the level of opening-up in the securities and futures industry and enhancing the cooperation in cross-border regulation.

According to the Opinions on Further Promoting the Innovative Development of Securities Operators (《關於進一步推進證券經營機構創新發展的意見》) which came into effect on May 13, 2014, modern investment banks shall be constructed by, inter alia, enhancing integrated financial service capabilities, improving basic functions, broadening financing channels, developing cross-border business and enhancing compliance and risk control standards. Business and product innovation shall be supported by, inter alia, promoting the development of asset management business, supporting the launching of fixed-income, foreign exchange and bulk commodities businesses, supporting innovations in financing business, conducting derivatives business in a stable and proper manner, developing OTC services and supporting self-development of private equity products. Regulatory transformation shall be facilitated by, inter alia, changing the regulatory mode, deepening examination and approval reforms, relaxing industry access and implementing business license administration.

The Opinions of State Council on Deepening the Reform of Investment and Financing Mechanism (《中共中央、國務院關於深化投融資體制改革的意見》) which came into effect on July 5, 2016 proposes to vigorously promote the structural reform, especially the supply-side structural reform, to give full play to the decisive role of the market in resource allocation and take an active role of the government in a better way. The Opinions further proposes to change the function of the government, to promote the reform of administration streamlining and power delegation, the combination of the power delegation and regulation and optimizing services, so as to establish and perfect a new investment and financing mechanism with enterprise's independent decision-making, smooth financing channel, fully-normalized government behavior, effective macro-control and sound legal protection.

In recent years, the State Council has promulgated a series of regulations on canceling and adjusting the items requiring administrative reviews and approvals for, inter alia, the securities industry, including but not limited to cancelation of the approval requirement for appointment qualifications of persons in charge of domestic branches of securities companies, cancelation of review and approval requirements for the borrowing or issuance, repayment or clearance of subordinated debts by securities institutions, and cancelation of the review and approval requirements for new trading items listed on a stock exchange.

With the deepening of regulatory reforms and innovations in the securities industry, the regulatory authorities in the PRC has adopted the philosophy of relaxing prior approval while enhancing in-process and post-event supervision, and continued to promote the transformation of regulation pattern of the securities markets in China. The regulatory reform leads to a surge of innovative products and services and has also brought about new market risk and market volatility at the same time. As a result, the regulatory authorities have requested securities firms to strengthen their overall risk management and new regulations and rules are kept being promulgated from time to time to adjust the market order.

OVERVIEW OF REGULATORY ENVIRONMENT IN HONG KONG

Introduction

The SFO (including its subsidiary legislation) is the principal legislation regulating the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, the offering of investments to the public in Hong Kong, intermediaries and their conduct of regulated activities. In particular, Part V of the SFO governs licensing and registration matters.

The SFO is administered by the SFC which is the statutory regulatory body that governs the securities and futures markets and non-bank leveraged foreign exchange market in Hong Kong.

In addition to the SFO, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (including its subsidiary legislation) empowers the SFC to authorize the document for offerings of shares and debentures and/or grants the relevant waivers.

Types of regulated activities

The SFO promulgates a comprehensive licensing regime where a person only needs one license or registration to carry on different types of regulated activities as defined in Schedule 5 to the SFO:

Type 1 : dealing in securities;
Type 2 : dealing in futures contracts;
Type 3 : leveraged foreign exchange trading;
Type 4 : advising on securities;
Type 5 : advising on futures contracts;
Type 6 : advising on corporate finance;
Type 7 : providing automated trading services;
Type 8 : securities margin financing;
Type 9 : asset management;
Type 10 : providing credit rating services;
Type 11 : dealing in OTC derivative products or advising on OTC derivative products[(1)]; and
Type 12 : providing client clearing services for OTC derivative transactions[(2)].

Notes:

(1) The amendments to the SFO in relation to Type 11 regulated activity are not yet in operation. The day on which the Type 11 regulated activity will come into operation will be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

(2) The Type 12 regulated activity came into operation on September 1, 2016 pursuant to the Securities and Futures (Amendment) Ordinance 2014 (Commencement) Notice 2016 (L.N. 27 of 2016), in so far as it relates to paragraph (c) of the new definition of excluded services in Part 2 of Schedule 5 to the SFO.

As of the Latest Practicable Date, our following indirect Hong Kong subsidiaries are licensed under the SFO to carry out the regulated activities as set out below:

Name	Type of license
Shenwan Hongyuan Asset Management (Asia) Limited	● Type 4: Advising on Securities ● Type 9: Asset Management
Shenwan Hongyuan Capital (H.K.) Limited	● Type 1: Dealing in Securities(1) ● Type 4: Advising on Securities ● Type 6: Advising on Corporate Finance
Shenwan Hongyuan Futures (H.K.) Limited	● Type 2: Dealing in Futures Contracts
Shenwan Hongyuan Research (H.K.) Limited(2)	● Type 4: Advising on Securities ● Type 5: Advising on Futures Contracts
Shenwan Hongyuan Securities (H.K.) Limited	● Type 1: Dealing in Securities

Notes:

(1) on the condition that the licensee shall not engage in dealing activities other than those relating to corporate finance.

(2) on the condition that the licensee shall not hold client assets. The terms "hold" and "client assets" are as defined under the SFO.

In addition to the licenses above granted to the members of our Group by SFC, each of Shenwan Hongyuan (H.K.) Limited, Shenwan Hongyuan Securities (H.K.) Limited and Shenwan Hongyuan Finance (H.K.) Limited also hold a money lender license issued by the licensing court under the Money Lenders Ordinance, which allows it to provide loans to its clients in its ordinary course of business.

Overview of Licensing Requirements

Under the SFO, any person who:

(a) carries on a business in a regulated activity; or

(b) holds itself out as carrying on a business in a regulated activity,

must be licensed under the relevant provisions of the SFO for carrying on such regulated activity, unless one of the exceptions under the SFO applies. This applies to a corporation carrying on a business in a regulated activity and to any individuals acting on behalf of that corporation in carrying on such activities. It is a serious offense for a person to conduct any regulated activity without holding the relevant license.

In addition, if a person (whether by itself or another person on its behalf, and whether in Hong Kong or from a place outside of Hong Kong) actively markets to the public in Hong Kong any service that it provides and such service, if provided in Hong Kong, would constitute a regulated activity, then that person is also subject to the licensing requirements under the SFO.

Responsible Officers

For a corporation which is licensed to carry out regulated activities, it must appoint no less than two responsible officers, at least one of whom must be an executive director, to oversee the business of the regulated activities. An executive director of a licensed corporation must be a director who actively participates in, or is responsible for directly supervising, any business of the regulated activities for which the corporation is licensed to carry out. An executive director who is an individual must be approved by the SFC to serve as the responsible officer of such regulated activities of the corporation.

Managers-in-Charge of Core Functions ("MICs")

A licensed corporation is required to designate certain individuals as Managers in Charge of Core Functions and provide to the SFC information about its MICs and their reporting lines. MICs are individuals appointed by a licensed corporation to be principally responsible, either alone or with others, for managing each of the following eight core functions of the licensed corporation:

(a) overall management oversight;

(b) key business lines;

(c) operational control and review;

(d) risk management;

(e) finance and accounting;

(f) information technology;

(g) compliance; and

(h) anti-money laundering and counter-terrorist financing.

The management structure of a licensed corporation (including its appointment of MICs) should be approved by the board of the licensed corporation. The board should ensure that each of the licensed corporation's MICs has acknowledged his or her appointment as MIC and the particular core function(s) for which he or she is principally responsible.

Licensed Representatives

In addition to the licensing requirements on corporations that carry on regulated activities, any individual who:

(a) performs any regulated function for his principal which is a licensed corporation in relation to a regulated activity carried on as a business; or

(b) holds himself out as performing such regulated function, must be licensed separately under the SFO as a licensed representative accredited to his principal.

Fit and Proper Requirement

A person applying for licenses under the SFO must satisfy, and continue to satisfy after the grant of such licenses by the SFC, that he is a fit and proper person to be so licensed. The fit and proper person requirement generally means that an applicant must be financially sound, competent, honest, reputable and reliable.

Ongoing Obligations of Licensed Corporations

It is the continuing obligation of licensed corporations, licensed representatives and responsible officers to remain fit and proper as defined under the SFO at all times. They are required to comply with all applicable provisions of the SFO and its ancillary rules and regulations, as well as the codes and guidelines issued by the SFC.

Outlined below are some of the key continuing obligations of a licensed corporation:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the SFC, in accordance with the requirements under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) (the "**Financial Resources Rules**");
- maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong);
- maintenance of segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules (Chapter 571I of the Laws of Hong Kong);
- issuance of contract notes, statements of account and receipts, in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the Laws of Hong Kong);
- maintenance of records in accordance with the requirements prescribed under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong);
- submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong);
- maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong);
- payment of annual fees and submission of annual returns to the SFC within one month after each anniversary date of the license;
- notification to the SFC of certain changes and events, in accordance with the requirements under Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong);
- notification to the SFC of any changes in the appointment of MICs or any changes in certain particulars of MICs pursuant to the Circular to Licensed Corporations Regarding Measures for Augmenting the Accountability of Senior Management dated December 16, 2016 issued by the SFC;
- compliance with the continuous professional training requirements under the Guidelines on Continuous Professional Training issued by the SFC;
- implementation of appropriate policies and procedures relating to client acceptance, client due diligence, record keeping, identification and reporting of suspicious transactions and

staff screening, education and training, in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC in November 2018 (the "**AML & CTF Guideline**");

- compliance with employee dealings requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, which requires licensed corporations to implement procedures and policies on employee trading, to actively monitor the trading activities in their employees' accounts and their related accounts; and
- compliance with the business conduct and internal control requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, Corporate Finance Adviser Code of Conduct, Fund Manager Code of Conduct, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, the Advertising Guidelines Applicable to Collective Investment Schemes Authorized under the Product Codes, the Guidelines on Disclosure of Fees and Charges Relating to Securities Services and other applicable codes, circulars and guidelines issued by the SFC.

Securities and Futures (Financial Resources) Rules

A licensed corporation is required to maintain a prescribed level of minimum paid-up share capital. The following table sets out a summary of the minimum paid-up share capital requirements applicable to our licensed subsidiaries in Hong Kong:

Names of the Licensed subsidiaries	Regulated activities	Minimum amount of paid-up share capital
Shenwan Hongyuan Asset Management (Asia) Limited	● Type 4: Advising on Securities ● Type 9: Asset Management	HK$5,000,000
Shenwan Hongyuan Capital (H.K.) Limited	● Type 1: Dealing in Securities(1) ● Type 4: Advising on Securities ● Type 6: Advising on Corporate Finance	HK$10,000,000
Shenwan Hongyuan Futures (H.K.) Limited	● Type 2: Dealing in Futures Contracts	HK$5,000,000
Shenwan Hongyuan Research (H.K.) Limited(2)	● Type 4: Advising on Securities ● Type 5: Advising on Futures Contracts	NIL
Shenwan Hongyuan Securities (H.K.) Limited	● Type 1: Dealing in Securities	HK$10,000,000

Notes:

(1) on the condition that the licensee shall not engage in dealing activities other than those relating to corporate finance.

(2) on the condition that the licensee shall not hold client assets. The terms "hold" and "client assets" are as defined under the SFO.

Other than minimum paid-up share capital requirements, the Financial Resources Rules also stipulate that, a licensed corporation is required to maintain minimum amount of liquid capital, which is the amount by which its liquid assets exceeds its ranking liabilities in relation to a licensed corporation.

Anti-money Laundering and Counter-terrorist Financing

Licensed corporations are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Hong Kong as well as the AML & CTF Guideline,

and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the SFC for Associated Entities published by the SFC in November 2018.

The AML & CTF Guideline provides guidance to licensed corporations and their senior management in designing and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls in order to meet the relevant legal and regulatory requirements in Hong Kong. Pursuant to the AML & CTF Guideline, licensed corporations should, among other things:

- assess the risks of any new products and services before they are offered to the market and ensure that appropriate additional measures and controls are implemented to mitigate and manage the associated money laundering and terrorist financing risks;
- consider the delivery and distribution channels (which may include sales through online, postal or telephone channels where a non-face-to-face account opening approach is used and business sold through intermediaries) and the extent to which they are vulnerable to abuse for money laundering and terrorist financing;
- identify the client and verify the client's identity using reliable, independent source documents, data or information, and take steps from time to time to ensure that the client information is up-to-date and relevant;
- conduct on-going monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complex, large or unusual, or patterns of transaction that have no apparent economic or lawful purpose and may indicate money laundering and terrorist financing;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the various lists that have been made known to it, as well as comprehensive on-going screening of the client database; and
- conduct on-going monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspected money laundering.

We set out below a brief summary of the principal legislation of the anti-money laundering and counter-terrorist financing regulatory regime in Hong Kong.

Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) ("AMLO")

Among other things, the AMLO imposes on certain institutions (which include licensed corporations as defined under the SFO) requirements relating to client due diligence and record-keeping and provides regulatory authorities with the powers to supervise compliance with the requirements under the AMLO. In addition, the regulatory authorities are empowered to (i) ensure that proper safeguards exist to prevent contravention of specified provisions in the AMLO and (ii) mitigate money laundering and terrorist financing risks.

Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("DTROP")

Among other things, the DTROP contains provisions for the investigation of assets suspected to be derived from drug trafficking activities, the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities. It is an offense under the DTROP if a person deals with any property knowing, or having reasonable grounds to believe, it to be the proceeds from drug trafficking. The DTROP requires a person to report to an authorized officer if he/she knows or suspects that any property (directly or indirectly) is the proceeds from drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offense under the DTROP.

Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) ("OSCO")

Among other things, the OSCO empowers officers of the Hong Kong Police Force and the Hong Kong Customs and Excise Department to investigate organized crime and triad activities, and it gives the courts jurisdiction to confiscate the proceeds from organized and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offenses. The OSCO extends the money laundering offense to cover the proceeds of all indictable offenses in addition to drug trafficking.

United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) ("UNATMO")

Among other things, the UNATMO provides that it is a criminal offense to: (i) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate, or collect property or solicit financial (or related) services, by any means, directly or indirectly, for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate. The UNATMO also requires a person to report his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offense under the UNATMO.

OUR HISTORY

Establishment of our Company and Major Changes in Share Capital

The history of our business and operation can be traced back to the 1980s. Shenyin Securities and Wanguo Securities were established in Shanghai on July 1, 1988 and July 15, 1988, respectively. On September 16, 1996, Shenyin & Wanguo Securities, one of our two predecessors, was established through the merger of Shenyin Securities and Wanguo Securities. Upon establishment, Shenyin & Wanguo Securities had a registered capital of RMB1,320,000,000 in which Industrial and Commercial Bank of China, Shanghai Municipal Finance Bureau, Shanghai International Trust Investment Company and Shanghai Branch of People's Insurance Company of China held 18.8%, 17.5%, 8.67% and 2.30%, respectively, and the remaining registered capital was held by other shareholders. In May 2002, with the approval of CSRC, the registered capital of Shenyin & Wanguo Securities was increased to RMB4,215,760,000. In September 2005, Shenyin & Wanguo Securities issued and Central Huijin subscribed for 2,500,000,000 new shares, thus the registered capital of Shenyin & Wanguo Securities was increased to RMB6,715,760,000 and Central Huijin held 37.23% of the total shares of Shenyin & Wanguo Securities upon completion. On February 24, 2012, Central Huijin acquired 1,218,967,798 shares of Shenyin & Wanguo Securities from Shanghai International Group (上海國際集團), Shanghai State-Owned Assets Operation Co., Ltd. (上海國有資產經營有限公司), Shanghai International Trust Co., Ltd. (上海國際信托有限公司) and Shanghai International Group Asset Management Co., Ltd. (上海國際集團資產管理有限公司), thus Central Huijin held 3,718,967,798 shares of Shenyin & Wanguo Securities upon completion, representing approximately 55.38% of the total shares of Shenyin & Wanguo Securities.

Hong Yuan Securities, being another predecessor of our Company, originated from Xinjiang Hongyuan Trust Investment Co., Ltd. ("**Hongyuan Trust**"), which was founded on May 25, 1993 in Xinjiang with a registered share capital of RMB175,000,000. Hongyuan Trust completed the initial public offering and listing of 50,000,000 A Shares (Stock Code: 000562.SZ) on Shenzhen Stock Exchange on February 2, 1994. In September 2000, with the approval of CSRC, Hongyuan Trust was reformed to a securities company and renamed as Hong Yuan Securities. Through a series of dividends distribution plans and new A Shares issuance from establishment to December 2014, the registered capital of Hong Yuan Securities was further increased to RMB3,972,408,332. As of December 2014, Central Huiijn, through its wholly owned subsidiary JIC, indirectly held 60.02% of the total shares of Hong Yuan Securities.

Before merger, Shenyin & Wanguo Securities had competitive strengths in respect of its brokerage business, investment consulting business and asset management business, and Hong Yuan Securities had competitive strengths in respect of its investment banking business and financial advisory business. In order to achieve synergy and mutually beneficial cooperation through complementarities, Shenyin & Wanguo Securities merged Hong Yuan Securities by absorption in January 2015. Shenyin & Wanguo Securities issued 8,140,984,977 of its shares to the then existing shareholders of Hong Yuan Securities. Following that, Shenyin & Wanguo Securities was renamed to Shenwan Hongyuan Group. Shenwan Hongyuan Group established a wholly-owned securities company in Shanghai, namely Shenwan Hongyuan Securities, and injected all the securities business related assets and liabilities succeeded from Shenyin & Wanguo Securities and Hong Yuan Securities into Shenwan Hongyuan Securities. Upon completion of the merger, the registered capital of Shenwan Hongyuan Group was increased to RMB14,856,744,977. On January 26, 2015, with the approval of the CSRC and the consent of Shenzhen Stock Exchange, our 14,856,744,977 A Shares were listed on the Shenzhen Stock Exchange (stock code: 000166.SZ). Through a series of dividends distribution

plans and new A Shares issuance from July 2016 to February 2018, the registered capital of Shenwan Hongyuan Group was further increased to RMB22,535,944,560.

Through over 30 years of operating history, we have become a leading investment holding group focused on securities businesses in China. As of December 31, 2018, we had 48 branch offices, 310 securities branches, and 40 futures branches in 29 provinces of China.

Listing on the Shenzhen Stock Exchange

With the approval of the CSRC and the consent of Shenzhen Stock Exchange, our 14,856,744,977 A Shares were listed on the Shenzhen Stock Exchange on January 26, 2015. Among them, 8,140,984,977 A Shares were newly issued to absorb and merge Hong Yuan Securities, thus no net proceeds was raised thereof.

The shareholding structure of our Company immediately after the above A Share offering was as follows:

Shareholders	Number of A Shares Held	Approximate percentage of Shareholding
JIC	4,886,153,294	32.89%
Central Huijin	3,718,967,798	25.03%
Shanghai Jiushi	898,378,066	6.05%
Other holders of A Shares	5,353,245,819	36.03%
Total	**14,856,744,977**	**100.00%**

Based on the knowledge of the Directors, the Company has been operating in compliance with the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange in all material aspects since our A Shares were listed on the Shenzhen Stock Exchange. As of the Latest Practicable Date, we had not been informed by the Shenzhen Stock Exchange of any material breach of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Milestone Events

The milestones events in our development history are set out below:

1994
- Hongyuan Trust (later was reformed as Hong Yuan Securities), one of our predecessors, was listed on Shenzhen Stock Exchange and subsequently selected as one of the constituent stocks of the CSI 300 Index.

1996
- Shenyin & Wanguo Securities, one of our predecessors, was established through the merger of Shenyin Securities and Wanguo Securities.

2000
- Hongyuan Trust was reformed to a securities company and renamed as Hong Yuan Securities, which became the first listed securities firm in China.

2005
- Shenyin & Wanguo Securities issued 2,500,000,000 new shares to Central Huijin. Central Huijin became the largest shareholder of us, which further enhanced our capital strength and laid a solid foundation for our business development.

2006
- Hong Yuan Securities, one of our predecessors, obtained the capital injection from JIC and acquired the brokerage business of the original Xinjiang Securities Co., Ltd., which further expanded our business scale.
- Shenyin & Wanguo Securities was one of the first securities firms awarded as the innovative pilot securities firms.

2008 ● Shenyin & Wanguo Securities was rated "Class A Grade AA", the best rating for securities firms so far, for the first time by CSRC, which were one of the first securities company receiving such rating.

2015 ● Shenyin & Wanguo Securities and Hong Yuan Securities engaged in the largest merger of securities firms in the PRC securities industry at that time, according to Dealogic. We were listed on Shenzhen Stock Exchange on January 26, 2015.

2018 ● We issued 2,479,338,842 new A Shares which were listed on the Shenzhen Stock Exchange on January 30, 2018.

For the business related milestone events, see "Business—Competitive Strengths—Strong market influence and brand."

MAJOR ACQUISITIONS AND DISPOSALS

During the Track Record Period, our Company did not have any major acquisitions or disposals.

OUR PRINCIPAL SUBSIDIARIES

The following chart sets out the detailed information of our principal subsidiaries as of the Latest Practicable Date:

No.	Name of Subsidiary	Place of Incorporation	Date of Incorporation	Share Capital	Shareholding of our Company	Main Scope of Business
1.	Shenwan Hongyuan Securities	PRC	January 16, 2015	RMB 43,000,000,000	100%	Securities brokerage, securities investment advisory service, margin financing and securities lending and agency sales of financial products, securities proprietary trading, securities assets management, securities underwriting and sponsoring
2.	Hongyuan Huizhi	PRC	March 27, 2012	RMB 2,000,000,000	100%	Investment, asset management, investment management, management consulting service, investment advisory service
3.	Hongyuan Huifu	PRC	March 19, 2010	RMB 500,000,000	100%	Entrepreneurship investment advisory service, entrepreneurial management, enterprises and management advisory institutions establishment
4.	Shenwan Hongyuan Industrial Investment	PRC	January 21, 2015	RMB 176,500,000	100%	Investment and asset management, investment advisory service
5.	Hongyuan Futures	PRC	May 2, 1995	RMB 1,000,000,000	100%	Commodity futures brokerage, financial futures brokerage, futures investment advisory service, asset management

No.	Name of Subsidiary	Place of Incorporation	Date of Incorporation	Share Capital	Shareholding of our Company	Main Scope of Business
6.	Shenwan Hongyuan Securities (Western)	PRC	January 20, 2015	RMB 4,700,000,000	100%	Securities brokerage, securities investment advisory, margin financing and securities lending, agency sales of financial products, securities investment fund agency sales, futures intermediary business, securities proprietary trading
7.	Shenwan Hongyuan Financing Services	PRC	January 20, 2015	RMB 1,000,000,000	100%	Securities underwriting and sponsoring (other than underwriting business of treasury bonds, debt financing instruments of non-financial enterprises, financial bonds of policy banks and corporate bonds), financial consultation related to securities transactions and securities investment activities
8.	Shenwan Futures	PRC	January 7, 1993	RMB 1,119,371,400	97.25%	Commodity futures brokerage, financial futures brokerage, futures investment advisory service, asset management, fund sales
9.	SWS MU Fund	PRC	January 15, 2004	RMB 150,000,000	67%	Fund management, establishment of funds and other businesses approved by the CSRC (including selling funds promoted by itself)
10.	SWS Research	PRC	October 16, 1992	RMB 20,000,000	90%	Securities investment advisory, enterprises investment advisory, corporate planning, information software development and sales, information results transfer, information technology consultation services, securities talents training, information collection, processing and release, economic information services, information system integration
11.	Shenwan Hongyuan (International)	Hong Kong	October 29, 1992	HK$2,253,398,812	100%	Investment holding

No.	Name of Subsidiary	Place of Incorporation	Date of Incorporation	Share Capital	Shareholding of our Company	Main Scope of Business
12.	Shenwan Hongyuan (H.K.)	Hong Kong	August 18, 1972	HK$2,782,477,266.73	75%(1)	Investment holding, mainly engaging in securities brokerage, corporate finance, asset management, financing and loan investment and other businesses through its subsidiaries

(1) Shenwan Hongyuan (H.K.) is directly held by Shenwan Hongyuan Holdings (B.V.I.) Limited and Shenwan Hongyuan (International) as to 25.78% and 49.22% respectively, where Shenwan Hongyuan Holdings (B.V.I.) Limited is a 60.82% indirect subsidiary of our Company.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

Our top ten Shareholders as of December 31, 2018

The following table sets out the shareholding of our top ten Shareholders as of December 31, 2018, all of whom held A Shares:

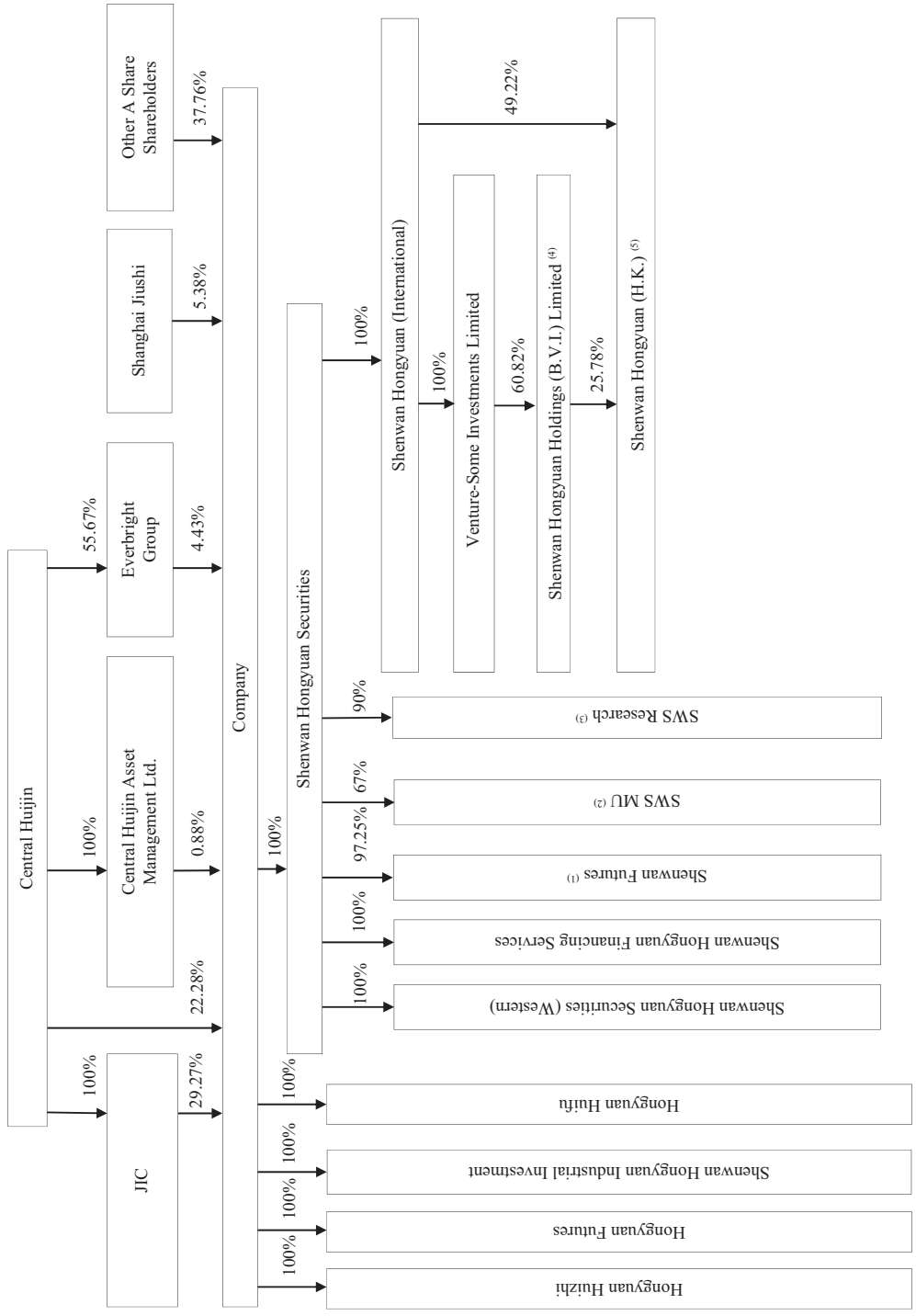
	Number of A Shares Held	Approximate Percentage of Shareholding
JIC	6,596,306,947	29.27%
Central Huijin	5,020,606,527	22.28%
Shanghai Jiushi	1,212,810,389	5.38%
Sichuan Development Holding Co., Ltd.	1,124,543,633	4.99%
Everbright Group	999,000,000	4.43%
China Securities Finance Corporation Limited	635,215,426	2.82%
Xinjiang Financial Investment Co., Ltd.	619,834,710	2.75%
China Life Insurance Company Ltd.—traditional—ordinary insurance product—005L—CT001Shen (中國人壽保險股份有限公司—傳統—普通保險產品—005L—CT001深)	495,867,768	2.20%
Taiping Life Insurance Co.,Ltd—traditional—ordinary insurance product—022L—CT001Shen (太平人壽保險有限公司—傳統—普通保險產品—022L—CT001深)	239,092,731	1.06%
Central Huijin Asset Management Ltd.	197,390,385	0.88%
Total	**17,140,668,516**	**76.06%**

Reasons for the [REDACTED] *on the Hong Kong Stock Exchange*

We are seeking to **[REDACTED]** our H Shares on the Hong Kong Stock Exchange, in order to develop our securities business, make principal investment and further develop our international business. For further details, see "Business—Business Strategies" and "Future Plans and Use of **[REDACTED]**."

***Shareholding structure immediately prior to the* [REDACTED]**

The following chart sets forth our simplified shareholding structure as of the Latest Practicable Date:



(1) The remaining 2.36% of the equity interest in Shenwan Futures was held by Shanghai Jiaoda Industry Investment Management (Group) Co., Ltd., who to the best knowledge and information of the Directors, is an Independent Third Party and 0.39% of the equity interest was held by Shanghai Xin Nanyang Company Limited, who to the best knowledge and information of the Directors, is an Independent Third Party.

(2) The remaining 33% of the equity interest in SWS MU Fund was held by Mitsubishi UFJ Trust and Banking Corporation, who to the best knowledge and information of the Directors, is an Independent Third Party.

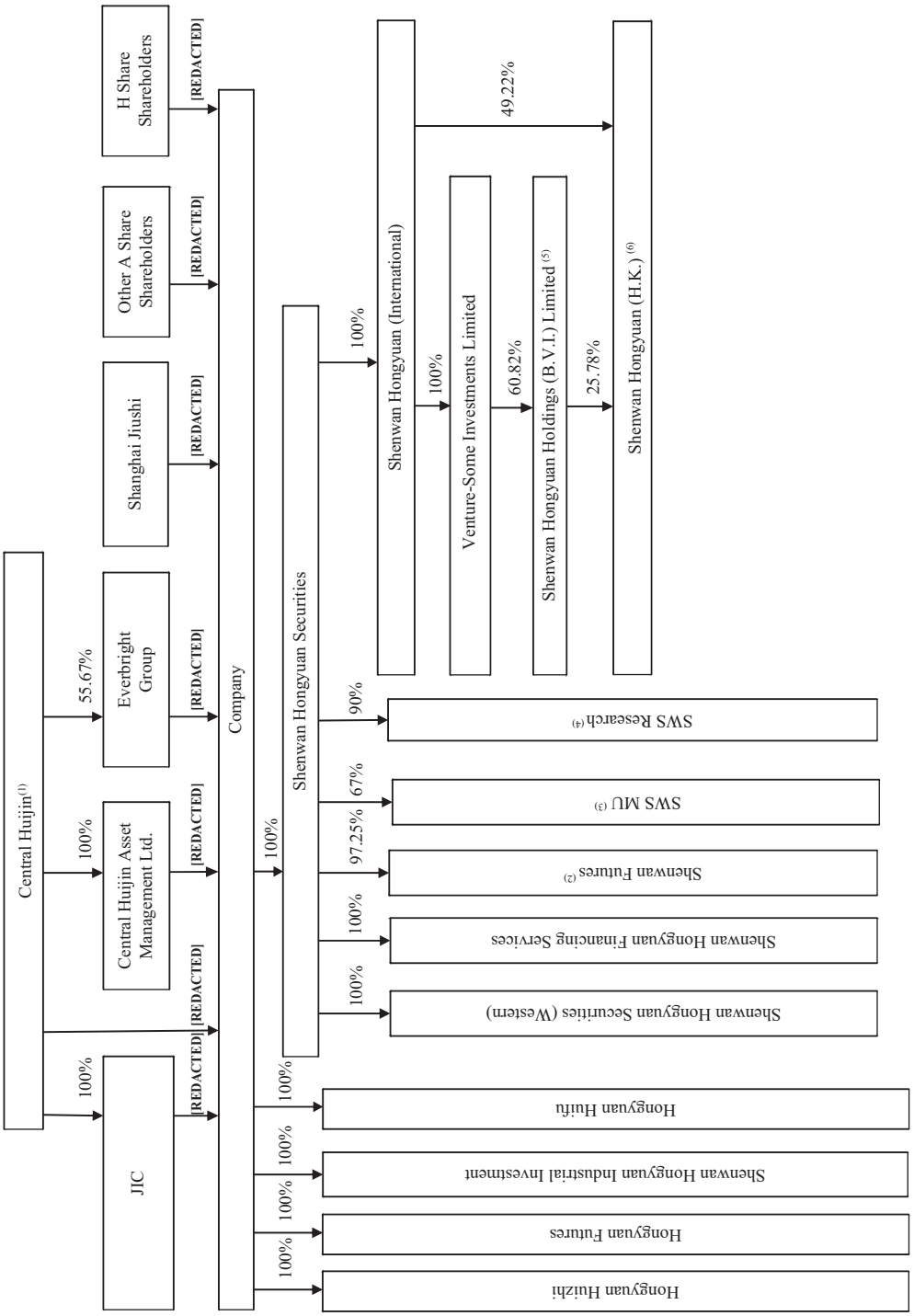
(3) The remaining 10% of the equity interest in SWS Research was held by Wonders Information Co., Ltd., who to the best knowledge and information of the Directors, is an Independent Third Party.

(4) The remaining 39.18% of the equity interest in Shenwan Hongyuan Holdings (B.V.I.) Limited was held by Shanghai Industrial Investment (Holdings) Company Limited as to 19.95% and First Shanghai Investments Limited as to 19.23%, respectively.

(5) The remaining 25% of the equity interest in Shenwan Hongyuan (H.K.) was held by other public shareholders, who to the best knowledge and information of our Directors, are Independent Third Parties.

***Shareholding structure immediately following completion of the* [REDACTED]**

The following chart sets forth our simplified shareholding structure immediately following completion of the **[REDACTED]** (assuming that the **[REDACTED]** is not exercised):



[REDACTED]

(2) The remaining 2.36% of the equity interest in Shenwan Futures was held by Shanghai Jiaoda Industry Investment Management (Group) Co., Ltd., who to the best knowledge and information of the Directors, is an Independent Third Party and 0.39% of the equity interest was held by Shanghai Xin Nanyang Company Limited, who to the best knowledge and information of the Directors, is an Independent Third Party.

(3) The remaining 33% of the equity interest in SWS MU Fund was held by Mitsubishi UFJ Trust and Banking Corporation, who to the best knowledge and information of the Directors, is an Independent Third Party.

(4) The remaining 10% of the equity interest in SWS Research was held by Wonders Information Co., Ltd., who to the best knowledge and information of the Directors, is an Independent Third Party.

(5) The remaining 39.18% of the equity interest in Shenwan Hongyuan Holdings (B.V.I.) Limited was held by Shanghai Industrial Investment (Holdings) Company Limited as to 19.95% and First Shanghai Investments Limited as to 19.23%, respectively.

(6) The remaining 25% of the equity interest in Shenwan Hongyuan (H.K.) was held by other public shareholders, who to the best knowledge and information of our Directors, are Independent Third Parties.

OVERVIEW

We are a leading investment holding group focused on securities businesses in China. We are committed to providing diverse financial products and services to clients, and have established a longstanding leading position across multiple business lines in the PRC securities industry with quality growth. Among all securities firms in China, our net assets as of December 31, 2018 ranked seventh, and our revenue and net profits in 2018 ranked fifth and seventh, respectively, under the PRC GAAP. In 2018, our weighted average return on equity under the PRC GAAP ranked third among the top ten securities firms in China by net assets as of December 31, 2018.

In January 2015, we emerged from the merger between Shenyin & Wanguo Securities and Hong Yuan Securities, which was the largest merger in the PRC securities industry at that time, according to Dealogic. Our corporate structure is characterized by an investment parent company, Shenwan Hongyuan Group, and a subsidiary securities firm, Shenwan Hongyuan Securities. We provide comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management. Our principal business lines are:

Enterprise Finance		Personal Finance	Institutional Services and Trading	Investment Management
Investment Banking	**Principal Investment**			
• Equity financing • Debt financing • Financial advisory	• Equity investment • Debt investment • Other investment	• Securities and futures brokerage • Margin financing and securities lending • Stock-backed lending • Sales of financial products	• Prime brokerage • Research • Proprietary trading	• Asset management • Mutual fund management • Private equity fund management

- ***Enterprise finance:*** our enterprise finance business provides investment banking and principal investment services to our corporate clients. In our investment banking business, we provide equity underwriting and sponsorship, debt underwriting and financial advisory services. In addition, we engage in equity investment in unlisted companies and debt investment primarily through various financial instruments;
- ***Personal finance:*** our personal finance business serves the comprehensive financial needs of individuals and non-professional institutional clients. We provide services such as securities and futures brokerage, margin financing and securities lending, stock-backed lending, sales of financial products and investment advisory through our extensive online and offline channels;
- ***Institutional services and trading:*** our institutional services include prime brokerage and research services for professional institutional clients. We also engage in the trading of FICC, equity and equity-linked securities with our own funds or as a counterparty to institutional clients. Based on our trading capabilities, we offer sales, market-making, hedging and OTC derivatives services to institutional clients; and
- ***Investment management:*** our investment management business consists of asset management, mutual fund management and private equity fund management services.

In 2016, 2017 and 2018, our total revenue and other income was RMB21,718.9 million, RMB20,924.6 million and RMB24,109.6 million, respectively. As of December 31, 2016, 2017 and

2018, our total assets amounted to RMB275,489.3 million, RMB299,943.3 million and RMB347,725.0 million, respectively, and our total equity attributable to shareholders of the Company amounted to RMB52,304.8 million, RMB55,197.2 million and RMB69,399.3 million, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths are crucial to our success and help us maintain our leading position ahead of our competitors:

Strong market influence and brand

Since our inception in 1988, we have witnessed the development of the PRC securities industry and navigated through several market cycles and regulatory changes, cultivating a strong and longstanding brand in the PRC capital markets. In our operating history, we completed a series of mergers and acquisitions, including the combination and integration of Shenyin Securities, Wanguo Securities and Hong Yuan Securities. In over 30 years of corporate history, we have accumulated deep market insights and completed many pioneering transactions, leading the development of PRC capital markets:

- in 1984, the predecessor of Shenyin Securities acted as the placing agent in the first A-share offering in China, issued by Shanghai Feilo Acoustics (上海飛樂音響);
- in 1987, we launched the first stock index in China and in 1989, we compiled the first stock market yearbook in China;
- in 1992, we acted as the placing agent in the first B-share offering in China by Shanghai Vacuum Electron (上海真空電子);
- in 1992, we established our securities research institute, which was the first research institute as a standalone legal entity in the PRC securities industry;
- in 1993, we launched Baoding Fund (寶鼎基金), which was the first mutual fund issued and managed by a securities firm in China;
- in 1993, we acted as the underwriter for the first offshore convertible bonds issued by a PRC enterprise, China Textile Machinery (中國紡織機械廠);
- in 2000, Hong Yuan Securities became the first listed securities firm in China;
- in 2001, we acted as an agent in the first delisting of shares in China;
- in 2003, we became the first QFII domestic securities broker and completed the first QFII transaction;
- in 2006, we recommended the listing of the first two companies listed on the predecessor of NEEQ;
- in 2008, we acted on the first acquisition by share issuance in China by a listed company, Xinjiang Tiankang Animal Science Bio-Technology Co,. Ltd. (新疆天康畜牧生物技術股份有限公司);
- in 2009, we acted as the lead underwriter for the IPO by Beijing Join-Cheer Software Co., Ltd. (北京久其軟件股份有限公司) on the Shenzhen Stock Exchange, which was the first IPO listing transferred from the NEEQ;

- in 2011, we were one of the first securities firms to launch the PRC pilot program of RQFII;
- in 2013, we were one of the first securities firms qualified to provide NEEQ recommendation services;
- in 2015, Shenyin & Wanguo Securities and Hong Yuan Securities engaged in the largest merger of securities firms in the PRC securities industry at that time, according to Dealogic; and
- in 2018, we were designated by the CSRC as one of the first ten securities firms to act as primary sponsors for the listing of innovative companies in China.

We established SWS Research, the first securities research institute as a standalone legal entity in China, in 1992. After nearly 30 years of development, our research institute is highly recognized by the industry and has become a key opinion leader in the market. From 2003 to 2017, in the "New Fortune Best Analysts' Awards" (新財富最佳分析師評選), our research institute has ranked first in the category of "Most Influential Research Institutes in China" for nine out of 15 years, and members of our research team have been awarded 234 times as the top analysts in various sectors. In 2000, we launched the Shenwan Stock Index and Shenwan Industry Index.

Central Huijin, our Controlling Shareholder, is a state-owned investment company authorized by the State Council to make equity investments in major state-owned financial institutions. We believe our Controlling Shareholder has enhanced our brand influence.

Leading position across businesses

Leading enterprise finance business

Our corporate structure consisting of an investment parent company and a subsidiary securities firm enables us to provide our corporate clients with one-stop financial services and capital support in their full lifecycle:

- *Early stage:* We provide NEEQ recommendation service, private equity investment and private placement of bonds;
- *Growth stage:* We provide IPO sponsorship and underwriting services; and
- *Late stage/Listed:* We underwrite bonds and follow-on offerings and assist clients in M&A transactions to facilitate their business expansion.

We evaluate the risk profile of our corporate clients and projects at each stage, and selectively provide equity or debt capital to quality enterprises, enhancing our capability of providing financial services to corporate clients. As of December 31, 2018, the total amount of our principal investment reached RMB13,525.0 million, of which RMB11,158.9 million was debt investment.

According to Wind Info, since our inception in 1988, we have completed a total of 351 equity financing transactions as a lead underwriter or sponsor, of which 183 were IPOs and the remaining 168 were follow-on offerings. We ranked fifth in the PRC securities industry in terms of the aggregate number of IPOs underwritten. Since our inception in 1988, we have completed a total of 501 debt offerings as a lead underwriter, raising an aggregate of RMB581.3 billion. Meanwhile, we also assist our clients to achieve industry consolidation through M&A transactions. Since 2016, we have provided financial advisory services in 21 M&A transactions involving listed companies, with an aggregate transaction value of over RMB56.2 billion.

In addition, we provide investment banking services to emerging enterprises. As of December 31, 2018, we have recommended 796 companies for quotation, acted as financial advisor for 702 follow-on placements, and provided continuous supervision to 613 companies on the NEEQ. We ranked first in the PRC securities industry for each of the categories above, according to East Money. Leveraging our NEEQ business, we identified quality investment opportunities and built a pipeline for investment banking transactions and accumulated extensive experience in serving emerging enterprises. We believe our experience and capability in serving emerging enterprises will help us maintain our leadership in the PRC capital markets and better position us to capture the opportunities from the proposed launch of the Science and Technology Innovation Board.

Leading personal finance services

According to Wind Info, as of December 31, 2018, the total market value of client's securities under our custody was RMB2.4 trillion with a market share of 7.1%, ranking among the top three in the PRC securities industry. As of December 31, 2018, we had over 6.5 million personal finance clients, including over 19,000 high-net-worth clients and over 253,100 affluent clients, whose account balances in aggregate accounted for 74.1% of the total asset balance of our individual clients at the same date.

We offer our personal finance services through our extensive online and offline distribution channels. As of December 31, 2018, we had 48 branch offices, 310 securities branches and 40 futures branches in China, located in 29 provinces and municipalities. According to public disclosure by listed securities firms, we ranked fourth in the PRC securities industry in terms of number of securities branches as of December 31, 2017, and we operate the largest number of securities branches in Shanghai and Xinjiang among all securities firms in China. As of December 31, 2018, we had approximately 5,300 client managers and securities brokerage agents and 1,850 professional investment advisors, ranking seventh in the PRC securities industry, according to the SAC. We have set up a dedicated division for high-net-worth clients in our research institute to provide research in market strategies, industry, products and individual stock. We have an industry leading online platform. According to Analysys, in 2018, the number of average monthly active users of our mobile apps was approximately 2.8 million.

We provide diverse financial products to personal finance clients. In 2017, our market share of clients' trading volume of stocks and funds was 4.2%, according to Wind Info. With our strategic geographic coverage and offering of value-added services, we command a premium in our brokerage commission rate of stocks and funds, which was 3.6bps in 2018, and according to Wind Info was higher than the industry average rate. We also sell financial products developed by us and third parties to personal finance clients. For 2018, the total value of financial products we sold was RMB143.0 billion. In addition, we provide financial leverage to personal finance clients in their securities trading. As of December 31, 2018, our balance of margin loans and securities lent in China was RMB42.7 billion.

Leading institutional services and trading

We focus on mainstream institutional investors. As of December 31, 2018, we had over 1,000 institutional clients, including over 100 mutual fund managers, 600 private investment fund managers, 50 insurance companies, 130 commercial banks, and 270 overseas institutional clients, such as QFIIs, RQFIIs and B-share institutional investors. According to the SAC, in 2017, our revenue from trading units leasing service accounted for a market share of 4.7%, ranking fourth in the PRC securities industry. As of December 31, 2018, we covered 20.1% of all the QFII clients in the market. Segment

revenue and other income from our institutional services and trading increased from 14.3% in 2016 to 36.8% in 2018 of our total revenue and other income.

Our FICC business has been consistently outperforming the market. In 2016, 2017 and 2018, the return on our own capital used for fixed-income trading was 10.5%, 6.0% and 16.4%, respectively, which was 8.7 percentage points, 4.1 percentage points and 9.7 percentage points higher than the average rate of return achieved by open-end bond funds in China for the respective year.

We have a strong bonds distribution capability. In 2016, 2017 and 2018, we distributed 12.6%, 12.8% and 9.1%, respectively, of the debt financing instruments for non-financial enterprises in the market.

Leading investment management services

As of December 31, 2018, the aggregate AUM of our securities firm asset management business was RMB674.0 billion, ranking fifth in the PRC securities industry, according to Wind Info. SWS MU, our subsidiary, and Fullgoal Fund, our associate company, also provide mutual fund management. As of December 31, 2018, SWS MU managed 34 mutual funds with an aggregate AUM of RMB26.2 billion while Fullgoal Fund managed 124 mutual funds with an aggregate AUM of RMB197.3 billion. We also manage 16 private investment funds, including venture capital funds, growth funds and M&A funds, with a total invested fund size of RMB4.0 billion.

High quality growth

We are committed to maximizing shareholder value and have achieved industry-leading profitability. In 2016 and 2017, our weighted average return on equity under the PRC GAAP was 10.6% and 8.6%, respectively, ranking second and sixth, respectively, among the top ten securities firms in China by net assets as of December 31 of the respective year. Our weighted average return on equity under the PRC GAAP in 2018 ranked third among the top ten securities firms in China by net assets as of December 31, 2018.

We believe risk management creates value and therefore prioritize quality over scale as we grow our business. Through our long operating history, we have developed prudent risk management culture, cultivated our staff's awareness of their risk management responsibilities and achieved steady operations. We are one of the four securities firms in China to have received the "(Class A) AA" regulatory rating from the CSRC, the highest rating attained by any PRC securities firm to date, for eight consecutive years from 2011 to 2018 (granted in the middle of each calendar year). We have established a comprehensive risk management system covering, among others, market risk, credit risk, liquidity risk, operational risk and compliance risk.

Forward-looking positioning

We believe our corporate structure and geographic footprint are advantages that position us favorably in the competition ahead.

Our corporate structure is intended to enable us to establish a full-service business model covering the entire value chain in the capital markets and to better serve the evolving investment and financing needs of our clients. Our branch network, which spans across the eastern and western regions

of China and connects both PRC and overseas markets, is characterized by both comprehensive geographic coverage and strategic focus on key regions:

- Our investment parent company is headquartered in Beijing, which positions us to quickly react to changes in regulations and policies;
- Our securities firm is headquartered in Shanghai where we have the largest number of securities branches among all PRC securities firms. As an international financial center, Shanghai is a pioneer in China's financial reform and the eastern doorway to the "Maritime Silk Road";
- We have the most securities branches in Xinjiang among all PRC securities firms. Xinjiang is at the forefront of the new "Silk Road Economic Belt", positioning us to benefit from the market opportunities from the "Belt and Road" initiative; and
- We were the first PRC securities firm to acquire a Hong Kong-listed broker. Hong Kong gathers financial resources globally and our Hong Kong operations play an important role in our internationalization. In addition, we conduct business in Singapore through our local subsidiary and in Tokyo, Seoul and London through our representative offices.

BUSINESS STRATEGIES

We aim to maintain our leading position in the PRC securities industry and become a world class financial service provider. We also aim to enhance the collaboration among our principal business lines to meet the increasingly diverse and global financial needs of our clients. Our specific business strategies include:

Leading with enterprise finance business: In our enterprise finance business, we intend to focus on targeted clients and create greater synergies between principal investment and investment banking, building our enterprise finance business to be the driving force of our future growth by capturing greater cross-selling opportunities, including in particular,

- enhancing the market position of our enterprise finance business during the transition of the PRC economy by (i) helping large enterprises strengthen their market position through industrial consolidation and capital raisings, and (ii) attracting new economy enterprises and leveraging our strong capability in the NEEQ business to capture the emerging opportunities from the proposed launch of the Science and Technology Innovation Board;
- capitalizing on high-quality investment opportunities arising from the transition and development of the PRC economy, and forming greater synergy between our principal investment and investment banking businesses; and
- seizing the opportunities from the new era of international trade, and further growing our cross-border financing, M&A advisory and investment to facilitate collaboration between PRC and overseas companies.

Upgrading personal finance business: In our personal finance business, we intend to improve clients' experience and loyalty by focusing on better serving high-net-worth clients, increasing our offering of comprehensive financial products and investing in fintech, including in particular,

- optimizing our branch network, continuing to grow our investment advisory team and transferring our securities branches from traditional trading hubs to full-service wealth

management centers, with a focus on providing comprehensive wealth management and financing services to affluent, high-net-worth as well as non-professional institutional clients, particularly to address their needs for global asset allocation;

- offering multi-asset class, multi-market and multi-strategy financial products and services to affluent and high-net-worth clients by enhancing external collaboration with financial institutions, such as commercial banks, trust companies and insurance companies, and utilizing internal resource more effectively; and
- increasing our fintech investment in data centers, data analytics and artificial intelligence as well as technology-enabled platforms, and providing our clients with tailored services, enhancing online user experience of our clients, and increasing client base through cooperating with leading internet companies.

Expanding institutional services and trading: In our institutional services and trading business, we aim to expand our institutional client base and substantially enhance our service and trading capabilities, including in particular,

- growing our institutional investor base by focusing more on commercial banks, private funds and foreign institutional investors;
- enhancing our services to institutional clients, particularly service capability and IT systems for FICC sales and trading, equity sales and trading and derivatives services; and
- leveraging our leading position in China to better provide cross-border research, product distribution, financial products and trading services to PRC and overseas clients through collaboration between our business in China and overseas.

Optimizing investment management business: In our investment management business, we intend to focus on asset allocation, fintech and cross-border asset allocation, including in particular,

- enhancing our asset allocation capability with in-depth research and a more efficient investment decision process so that we can provide more comprehensive financial solutions;
- optimizing our portfolio management and risk management capabilities through data analytics, artificial intelligence and other advanced technologies; and
- enhancing our multi-strategy global asset allocation capability and offering more diverse cross-border asset management products to our PRC and overseas clients through collaboration with other asset management firms.

OUR BUSINESS

We provide comprehensive financial products and services to corporate, individual and institutional clients through our leading full-service business platform. Our principal business lines comprise enterprise finance, personal finance, institutional services and trading, and investment management. The following table sets forth a breakdown of our revenue and other income by business segment for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Enterprise finance	3,405.7	15.7%	2,838.1	13.6%	2,166.2	9.0%
Personal finance	12,586.8	57.9	11,549.7	55.2	11,137.7	46.1
Institutional services and trading	3,102.8	14.3	4,487.4	21.4	8,864.0	36.8
—Proprietary trading	1,798.9	8.3	3,315.0	15.8	7,727.3	32.1
Investment management	2,623.6	12.1	2,049.4	9.8	1,941.7	8.1
Total	**21,718.9**	**100.0%**	**20,924.6**	**100.0%**	**24,109.6**	**100.0%**

We have received a number of awards in recognition of our businesses in recent years. The following table shows the major awards we received for our overall business for the Track Record Period:

Year	Award	Awarding Body
2018	Best Intelligent Securities Firm (最佳智能券商)	Securities Daily (證券日報), Chongyang Institute for Finance Studies, Renmin University of China (中國人民大學重陽金融研究院)
	Best Management Innovation Award (最佳管理創新獎)	The 5th Hundsun Electronic "Innovation in Securities Industry" (恒生電子"證券行業創新大獎")
	Top Ten APPs of the Securities Firms Recognized by Investors in 2018 (2018受投資者認可的十大券商APP)	2018 Securities Industry Fintech Summit, as "Securities Firms in China • Outstanding APPs of Securities Firms" Selection (2018 證券行業金融科技峰會暨「券商中國 • 優秀證券公司APP」評選)
2017	Outstanding Contribution to Shenzhen–Hong Kong Connect (深港通突出貢獻獎)	Shenzhen Stock Exchange
	Influential Securities Firms for 2016 (年度影響力證券公司)	Enorth.com.cn (北方網)
2016	Best All-round Securities Firm in China for 2016 (2016中國區最佳全能證券投行)	Securities Times (證券時報)
	Securities Firm with the Best Innovation Capability for 2016 (2016年度最具創新力證券公司) and Top Ten Internet Finance Innovation Institutions (年度十佳互聯網金融創新機構)	Financial News (金融時報)

Enterprise Finance

Our enterprise finance business consists of investment banking business and principal investment business. Through collaboration between the two businesses, we provide comprehensive financial services to corporate clients. Our corporate structure consisting of an investment parent company and a subsidiary securities firm enables us to provide one-stop solutions to our clients.

Our enterprise finance business is able to facilitate cross-selling across different business lines to increase our business synergies and enhance client loyalty. For example, our investment banking team acted as the independent financial advisor for a healthcare company's major asset restructuring project, and, after learning of its controlling shareholder's needs for stock-backed lending services, referred such shareholder to our personal finance team. In addition, in connection with a chemical fiber company's IPO sponsored by us, our personal finance team provided stock repurchase services for its shareholders.

In 2016, 2017 and 2018, the total segment revenue and other income of our enterprise finance business amounted to RMB3,405.7 million, RMB2,838.1 million and RMB2,166.2 million, respectively, representing 15.7%, 13.6% and 9.0% of our total revenue and other income, respectively. The following table sets forth a breakdown of our total revenue and other income from our enterprise finance business for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Investment banking	2,362.4	69.4%	1,589.7	56.0%	955.7	44.1%
Principal investment	1,043.3	30.6	1,248.4	44.0	1,210.5	55.9
Total	**3,405.7**	**100.0%**	**2,838.1**	**100.0%**	**2,166.2**	**100.0%**

Investment banking

We provide one-stop investment banking solutions to corporate and government clients in China, including equity underwriting and sponsorship, debt underwriting and financial advisory. Our investment banking business is highly synergistic with our other businesses.

In 2016, 2017 and 2018, the total revenue and other income from our investment banking business (including those from the corporate finance business of Shenwan Hongyuan (H.K.) and its subsidiaries) amounted to RMB2,362.4 million, RMB1,589.7 million and RMB955.7 million, respectively, representing 69.4%, 56.0% and 44.1% of the segment revenue and other income of our enterprise finance business, respectively. The following table sets forth a breakdown of our total revenue and other income from our investment banking business by the type of service for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Equity financing	616.6	26.1%	604.6	38.0%	84.5	8.8%
Debt financing	1,110.9	47.0	589.0	37.1	568.2	59.5
Financial advisory[(1)]	529.5	22.4	284.4	17.9	236.5	24.7
Others	105.4	4.5	111.7	7.0	66.5	7.0
Total	**2,362.4**	**100.0%**	**1,589.7**	**100.0%**	**955.7**	**100.0%**

(1) Revenue from the NEEQ business is included in the financial advisory segment due to PRC regulatory requirements, while the business description of which is included in the equity financing due to its business nature.

We have received the following major awards in recognition of our investment banking business during the Track Record Period:

Year	Award/Recognition	Organization/Media
2019	Outstanding Corporate Bond Underwriter in 2018 (2018年度優秀公司債承銷商)	Shenzhen Stock Exchange
	Outstanding Rate Securities Underwriter in 2018 (2018年度優秀利率債承銷商)	Shenzhen Stock Exchange
	Outstanding Local Government Bond Underwriter in 2018 (2018年度優秀地方政府債承銷商)	Shanghai Stock Exchange
2018	Outstanding Local Government Bond Underwriter in 2017 (2017年度優秀地方債券承銷機構)	Shenzhen Stock Exchange
	Golden Horn – Top 10 Brand Securities Firms in 2018 (金號角—2018年度十大品牌券商)	NEEQ Online (新三板在綫)
	Junding Award for IPO Investment Banks of China (中國區IPO投行君鼎獎)	Securities Times (證券時報)
2017	Junding Award for IPO Investment Banks of China in 2017 (2017中國區IPO投行君鼎獎)	Securities Times (證券時報)
	Junding Award for NEEQ Recommendation Securities Firms of China (新三板推介掛牌券商君鼎獎)	Securities Times (證券時報)
	Pioneer IPO Investment Banks in 2017 (2017 IPO先鋒投行)	International Financial News (國際金融報)
	International Pioneer Investment Banks in 2017 (2017國際先鋒投資銀行)	International Financial News (國際金融報)
	NEEQ Pioneer Investment Banks in 2017 (2017新三板先鋒投行)	International Financial News (國際金融報)
2016	Best All-round Securities Investment Bank in China in 2016 (2016中國區最佳全能證券投行)	Securities Times (證券時報)
	Best Financial Advisory Team in China in 2016 (2016中國區最佳財務顧問團隊)	Securities Times (證券時報)

Equity financing

We provide equity underwriting and sponsorship and other equity financing services to corporate clients in China, including IPOs, follow-on offerings (including convertible bonds) and the NEEQ business. The total amount of equity securities underwritten by us as a lead underwriter in 2016, 2017 and 2018 was RMB27.2 billion, RMB21.7 billion and RMB12.9 billion, respectively.

The following table sets forth the breakdown of equity underwriting transactions in China in which we acted as a lead underwriter for the years indicated:

	Year ended December 31,		
	2016	2017	2018
Number of offerings underwritten	28	25	4
Amount underwritten *(RMB in millions)*	27,152.6	21,689.0	12,882.4
Underwriting fees *(RMB in millions)*	509.2	411.1	47.6
Average fee rate for underwriting IPOs as a lead underwriter in China (%)[1]	3.70	4.97	—
Average fee rate for underwriting follow-on offerings as a lead underwriter in China (%)	1.24	0.85	0.37

(1) We did not act as a lead underwriter for any IPO transactions in China in 2018.

We have outstanding IPO underwriting and sponsorship capabilities. According to Wind Info, since our inception in 1988, we have completed 183 IPOs as lead underwriter and sponsor, ranking fifth in the PRC securities industry. In 2016 and 2017, our average fee rate for IPO underwriting was 3.70% and 4.97%, respectively. Between the establishment of the SME Board and December 31, 2018, we acted as a sponsor and lead underwriter for 27 IPOs on the SME Board, ranking tenth among all PRC securities firms. Between the establishment of the ChiNext Board and December 31, 2018, we acted as a sponsor and lead underwriter for 25 IPOs on the ChiNext Board, ranking tenth among all PRC securities firms. As of December 31, 2018, we had 86 sponsor representatives.

Meanwhile, we are committed to exploring follow-on offering opportunities to enhance the diversity of our equity underwriting and sponsorship business. In 2016, 2017 and 2018, the total amount of follow-on offerings underwritten by us as a lead underwriter was RMB20,172.2 million, RMB16,199.3 million, and RMB12,882.4 million, respectively, and our average fee rate for underwriting follow-on offerings was 1.24%, 0.85% and 0.37%, respectively. The decline in our average fee rate is due to increased industry competition and an increase in the number of the large-size offerings underwritten by us with lower fee rates.

The number of equity offerings underwritten by us decreased in 2018, mainly due to unfavorable market conditions that adversely affected the PRC securities industry. Due to tightened regulatory review process in China, several of our IPO underwriting projects were delayed for filings. We submitted five IPO applications on behalf of issuers in 2018, ranking ninth in the PRC securities industry. We expect to accelerate the execution of our ongoing equity offering projects in 2019. We had four IPO underwriting projects and seven follow-on offering underwriting projects pending approval as of December 31, 2018. We plan to better seize market opportunities by proactively reaching out to potential clients and enhancing collaboration with other business lines. In addition, we intend to leverage our strong capability in the NEEQ business to capture opportunities from the proposed launch of the Science and Technology Innovation Board.

We are committed to serving blue-chip enterprises with established market position and ambition for strategic expansion, as well as science and technology enterprises with high growth potential and capital needs. We focus on building our expertise to service leading enterprises with innovation capabilities in the following sectors: financial services, energy and environmental protection, information technology, advanced equipment, new materials, consumer goods and healthcare.

The following table sets forth certain landmark equity underwriting transactions in China in which we acted as a lead underwriter during the Track Record Period:

Year	Issuer	Amount underwritten (RMB in millions)	Award and Highlights
		IPO projects	
2017	Xinfengming Group Co., Ltd.	2,062	Top ten IPO of Zhejiang Phoenix List in 2017 awarded by Zhejiang Investment and M&A Association and Phoenix New Media
2016	Bank of Shanghai Co., Ltd.	3,201	Best IPO in 2016 awarded by New Fortune (新財富)
2016	Ganso Co., Ltd.	610	Best IPO in 2017 awarded by New Fortune (新財富)
2016	GigaDevice Semiconductor (Beijing) Inc.	582	A landmark IPO of a leading developer of integrated circuits in China
		Follow-on offering projects	
2018	Bengang Steel Plates Co., Ltd.	4,000	Top ten follow-on offering by amount of proceeds in 2018
2017	Hengtong Optic-Electric Co., Ltd.	3,061	Best Refinancing Project in 2017 awarded by New Fortune (新財富)
2017	Tus-sound Environmental Resources Co., Ltd.	2,295	The largest follow-on offering of an environmental preservation company in 2017
2016	Ping An Bank Co., Ltd.	5,000	A landmark preference share offering by a national joint-stock commercial bank in 2016
2016	Shanghai Greattown Holdings Limited	4,800	Top five follow-on offerings by a real estate company in 2016

We place emphasis on our NEEQ business and consider it our signature business. On January 23, 2006, we recommended the first two companies listed on the predecessor of the NEEQ. Upon the establishment of the NEEQ in 2013, we were one of the first securities firms qualified to conduct recommendation for listing on the NEEQ.

According to East Money (東方財富):

- As of December 31, 2018, we have recommended a total of 796 enterprises for listing on the NEEQ, and provided financing services for 702 transactions on the NEEQ. The accumulated amount raised reached RMB29.4 billion. We ranked first in the PRC securities industry for each of the categories above.
- As of December 31, 2018, we have provided continuous supervision to 613 companies listed on the NEEQ, ranking first in the PRC securities industry.

During the Track Record Period, the NEEQ market experienced declines in the number of listings and the amount of offerings and funds raised. An increasing number of listed companies prefer to transfer from the NEEQ to the SME Board, the ChiNext Board or the main boards. Our NEEQ business is relatively independent from our investment banking business, and the market participants' intention to transfer from the NEEQ to other boards provides opportunities for our other types of investment banking services.

Our outstanding NEEQ business enables us to accumulate many high quality client resources while helping SMEs meet their financing needs. We believe our experience and capability in serving

emerging enterprises will help us maintain our leadership in the PRC capital markets and better position us to capture the opportunities from the proposed launch of the Science and Technology Innovation Board of the Shanghai Stock Exchange.

Debt financing

We operate a full-service debt underwriting business and are eligible for underwriting enterprise bonds, corporate bonds, asset-backed securities, financial bonds, treasury bonds, municipal bonds and non-financial enterprise debt financing instruments.

From 2016 to 2018, we acted as the lead underwriter for 210 debt offerings, raising an aggregate amount of RMB217.7 billion for our clients. In 2016, 2017 and 2018, we acted as the lead underwriter for debt offerings of RMB117.7 billion, RMB40.8 billion and RMB59.2 billion, respectively. In 2016, 2017 and 2018, the number of bonds underwritten by us as a lead underwriter was 108, 33 and 69, respectively. We ranked among top ten for three consecutive years from 2015 to 2017 in the enterprise bonds lead underwriter credit evaluation according to the NDRC.

Since 2017, the debt capital market in China has been adversely impacted by the unfavorable market conditions following the initiatives that encourage deleveraging and tightening of credits. Major types of debt products, principally enterprise bonds and corporate bonds, experienced significant declines in the number of offerings and amount raised in 2017, which adversely affected our debt financing business. To optimize our debt financing business and generate more stable revenue especially during less favorable market conditions, we have put more emphasis on recruiting and training professional talents, improving internal collaboration and underwriting a wider range of debt products, such as asset-backed securities and financial bonds. We have also leveraged our extensive securities branches to develop new clients and liaise with potential investors. In 2018, our debt financing business improved from 2017, and we underwrote our first auto finance company's financial bonds and green corporate bonds.

The following table sets forth the breakdown of debt underwriting transactions by type in which we acted as a lead underwriter for the years indicated:

		Year ended December 31,		
		2016	2017	2018
Enterprise bonds	Number of issuances	29	9	9
	Amount underwritten *(RMB in billions)*	28.0	8.8	6.1
	Underwriting fees *(RMB in millions)*	228.1	85.4	68.5
	Average fee rate	0.81%	0.97%	1.12%
Corporate bonds(1)	Number of issuances	63	12	30
	Amount underwritten *(RMB in billions)*	62.3	9.6	22.6
	Underwriting fees *(RMB in millions)*	334.0	51.1	91.2
	Average fee rate	0.54%	0.53%	0.40%
Asset-backed securities	Number of issuances	8	3	12
	Amount underwritten *(RMB in billions)*	0.6	4.1	11.6
	Underwriting fees *(RMB in millions)*	3.4	0.2	1.5
	Average fee rate	0.58%	0.0045%	0.01%
Financial bonds(2)	Number of issuances	4	9	17
	Amount underwritten *(RMB in billions)*	20.5	18.3	16.3
	Underwriting fees *(RMB in millions)*	27.4	16.0	25.4
	Average fee rate	0.13%	0.09%	0.16%
Government support institutions bonds	Number of issuances	4	0	1
	Amount underwritten *(RMB in billions)*	6.3	0	2.6
	Underwriting fees *(RMB in millions)*	5.2	0	2.9
	Average fee rate	0.08%	–	0.11%

(1) Corporate bonds include private placement bonds of SMEs.
(2) Financial bonds include subordinated bonds.

In addition, underwriting of municipal bonds has also become an important part of our debt financing business. In 2017 and 2018, we underwrote RMB2.3 billion and RMB22.4 billion of municipal bonds, respectively.

The following table sets forth certain landmark debt underwriting transactions in which we acted as a lead underwriter during the Track Record Period:

Year	Issuer	Offering size	Our role	Highlights/description
		(RMB in millions)		
2018	Industrial and Commercial Bank of China Limited	35,602	Joint lead underwriter	Credit asset securitization for a large state-owned commercial bank
2018	Central Huijin Investment Ltd.	13,000	Lead underwriter	Government support institution bond offering
2018	Far Eastern Leasing Co., Ltd.	8,000	Joint lead underwriter	The issuer is a large central government-owned enterprise which is a repeat client with long-term cooperation; this offering was launched in 2016 and continued for three consecutive years
2018	Agricultural Development Bank of China	7,000	Joint lead underwriter	Green financial bonds for a policy bank
2018	China Development Bank	6,000	Joint lead underwriter	Financial bonds for a policy bank
2018	SAIC-GMAC Automotive Finance Co., Ltd.	5,000	Lead underwriter	The largest bond offering with the lowest coupon rate by an automobile finance company since January 2017
2017	China Everbright Bank Co., Ltd.	50,000	Joint lead underwriter	Financial bond offering for a large national joint-stock commercial bank
2016	China Railway Corporation	40,000	Joint lead underwriter	Government support institution bond offering
2016	State Grid Corporation of China	10,000	Joint lead underwriter	Bonds issued by a large central government-owned enterprise

Financial advisory

We provide financial advisory services in respect of M&A transactions and restructuring for corporate clients in China. For the four consecutive years from 2015 to 2018, our capabilities of M&A and restructuring financial advisory services for listed companies were awarded "Class A" by the SAC. We assist clients to achieve strategic expansion through industry consolidation by M&A transactions. During the Track Record Period, we provided financial advisory services in 21 M&A transactions involving listed companies.

The following table sets forth the breakdown of the M&A transactions in which we acted as a financial advisor for the years indicated:

	Year ended December 31,		
	2016	2017	2018
Number of transactions	13	3	5
Transaction value *(RMB in millions)*	30,435.6	9,967.6	15,750.8
Advisory fee *(RMB in millions)*	90.1	48.4	57.7
Average fee rate	0.30%	0.49%	0.37%

Selected high-profile M&A transactions we participated in include:

Year	Project name	Transaction amount (in millions)	Our role	Highlights
2018	Acquisition of Wuxi Little Swan Co (小天鵝) by Midea Group (美的集團)	RMB14,300	Independent financial advisor	A corporate reorganization, enhancing Midea Group's leading position in the household appliances industry
2018	Acquisition of Super Sports Media Inc. (新英開曼) by DDMC Group (當代明誠) in cash	US$500	Independent financial advisor	The core assets of Super Sports Media Inc. were the exclusive rights to broadcast Premier League matches and the digital broadcast rights of the UEFA Nations League in China. This acquisition enabled DDMC Group to create a consolidated platform of copyrighted sports events in China
2017	Acquisition of Kaifeng Medicine Group (開藥集團) by Furen Pharmaceutical (輔仁藥業)	RMB7,810	Independent financial advisor	Furen Pharmaceutical became one of the large high quality listed companies in the pharmaceutical industry after the reverse takeover and listing
2016	Acquisition of Keystone (鉑濤酒店集團) by Jin Jiang Development (錦江股份)	RMB8,270	Independent financial advisor	Awarded the "Best Financial Advisory Project" by New Fortune

Principal investment

We make principal investment in equity and debt through various financial instruments, such as asset management schemes and trust schemes. We conduct our principal investment business through our Company, our subsidiary securities firm and a number of other subsidiaries, being Hongyuan Huizhi, Hongyuan Huifu, Shenwan Hongyuan Industrial Investment, Shenyin & Wanguo Investment and Shenyin & Wanguo Alternative Investment.

In 2016, 2017 and 2018, revenue and other income from our principal investment business amounted to RMB1,043.3 million, RMB1,248.4 million and RMB1,210.5 million, respectively, representing 30.6%, 44.0% and 55.9% of the total segment revenue and other income of our enterprise finance business, respectively. The following table sets forth a breakdown of our total revenue and other income and share of profit of associates and joint ventures from our principal investment business by business lines for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Equity investment	842.9	67.2%	560.3	38.1%	320.3	22.5%
Debt investment	128.1	10.2	573.4	39.0	848.6	59.7
Other investment	69.3	5.5	82.6	5.6	74.9	5.3
Others[1]	214.7	17.1	255.3	17.3	178.2	12.5
Total	**1,255.0**	**100.0%**	**1,471.6**	**100.0%**	**1,422.0**	**100.0%**

(1) Mainly includes government subsidies and other commission fees.

The following table sets forth the outstanding balance of principal investment as of the dates indicated:

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Debt investment[1]	5,268.4	70.1%	8,628.7	80.2%	11,158.9	82.5%
Equity investment[2]	2,046.6	27.2	1,825.7	17.0	2,348.1	17.4
Other investment[3]	200.0	2.7	301.6	2.8	18.0	0.1
Total[4]	**7,515.1**	**100.0%**	**10,756.0**	**100.0%**	**13,525.0**	**100.0%**

(1) Debt investment consists of fixed-income investment primarily through asset management schemes and trust schemes.
(2) Equity investment consists primarily of equity investment in unlisted companies primarily through asset management schemes.
(3) Other investment consists of investment in asset management schemes and trust schemes with mixed underlying assets (including both equity and fixed-income assets).
(4) Exclusive of interest in associates and joint ventures such as Fullgoal Fund.

In addition, ancillary of our business operations, we also invest in several joint ventures and associates, such as Fullgoal Fund. As of December 31, 2016, 2017 and 2018, the outstanding balance of our interest in associates and joint ventures amounted to RMB973.6 million, RMB1,870.7 million and RMB2,399.1 million, respectively.

We are committed to prudent investment approach and selecting high quality enterprises in China. In particular:

- Our debt investment mainly focuses on asset management or trust schemes which provide debt financing to central government-owned enterprises, state-owned enterprises and large private enterprises with strong credit standing and/or sufficient collaterals.
- For our equity investment, we focus on high quality companies operating in established industries such as consumers, real estate and financial services, and selectively invest in emerging industries such as TMT, new energy and healthcare.

We place great emphasis on the risk management of our principal investment business. We have formulated internal guidelines and standards for our principal investment business, covering

product design, business selection, due diligence, investment decision and execution, post-investment management and exit strategies. See "Risk Management—Risk Management and Internal Control Measures in our Major Business Lines—Enterprise Finance Business—Principal Investment."

The main objective of our principal investment business is to provide comprehensive equity or debt financing services to our corporate clients by collaborating with investment banking, asset management and other businesses. For example, our principal investment business can share client resources with our investment banking business and asset management business. We believe that providing capital support to our clients can help enhance client loyalty and promote cross-selling opportunities.

Personal Finance

Our personal finance business enjoys a leading position in the PRC securities industry. Through our extensive branch network, professional investment advisory teams, convenient mobile apps, and a full suite of financial products and services, we provide comprehensive personal finance services to individual and non-professional institutional clients. Our personal finance business primarily covers securities brokerage, futures brokerage, margin financing and securities lending, stock-backed lending and sales of financial products.

In 2016, 2017 and 2018, the total segment revenue and other income from our personal finance business amounted to RMB12,586.8 million, RMB11,549.7 million, and RMB11,137.7 million, respectively, representing 57.9%, 55.2%, and 46.1% of our total revenue and other income, respectively. The following table sets forth a breakdown of our total revenue and other income from our personal finance business by business lines for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Securities and futures brokerage	7,973.7	63.3%	6,265.8	54.3%	4,614.6	41.4%
Margin financing and securities lending	4,257.2	33.8	4,059.5	35.1	3,502.4	31.4
Stock-backed lending	175.3	1.4	1,065.5	9.2	2,858.3	25.7
Sales of financial products	114.1	0.9	88.1	0.8	84.6	0.8
Others	66.5	0.6	70.8	0.6	77.8	0.7
Total	**12,586.8**	**100.0%**	**11,549.7**	**100.0%**	**11,137.7**	**100.0%**

Our trading volume of stocks, funds and bonds in 2018 was RMB8.4 trillion. According to Wind Info, we ranked fifth among all securities firms in China in 2018, in terms of trading volume of stocks, funds and bonds, with a market share of 4.8%. In addition, according to Wind Info, as of December 31, 2017, we ranked seventh in terms of the balance of margin loans and securities lent in China. As of December 31, 2018, our personal finance business had over 6.5 million personal finance clients. According to Wind Info, as of December 31, 2018, the market value of our clients' securities under our custody was RMB2.4 trillion with a market share of 7.1%, ranked among the top three in the PRC securities industry.

We received a number of awards in recognition of our personal finance business:

- In 2018, we were awarded "Outstanding Information Service Provider for the Stock Connect" (港股通傑出信息服務券商) and "Pioneering Promoter of the Stock Connect in China for 2018" (2018年度內地港股通推廣先鋒券商) by the Hong Kong Stock Exchange;

- In 2018, in the "2018 China Pioneer Securities Brokers Summit" (2018中國先鋒證券經紀商高峰論壇), we were awarded three major awards, namely "2018 Pioneer Service Provider of High-net-worth Clients in China" (2018中國先鋒高淨值客戶服務商), "2018 Pioneer of Margin Financing and Securities Trading Business in China" (2018中國融資融券業務先鋒) and "2018 Pioneer of Options Business in China" (2018中國期權業務服務先鋒);
- In 2017, we were awarded "Outstanding Contributor of the Shenzhen-Hong Kong Stock Connect" (深港通突出貢獻獎) by the Shenzhen Stock Exchange; and
- In 2016, we were awarded "Best Wealth Management Institution in China" (中國最佳財富管理機構), "Best Securities Broker in China" (中國最佳證券經紀商), and "Best Investment Advisor Brand in China" (中國最佳投資顧問品牌) by Securities Times (證券時報).

Securities brokerage

We trade a wide range of securities on the stock exchanges and the NEEQ on behalf of our clients, mainly including:

- *Stocks:* stocks of companies listed on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the NEEQ, and stocks of companies listed on the Hong Kong Stock Exchange which are admitted to the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect;
- *Funds:* funds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, such as open-end funds and closed-end funds; and
- *Bonds:* bonds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, such as treasury bonds, corporate bonds, enterprise bonds and financial bonds.

The following table sets forth a breakdown of the trading volume of our securities brokerage business by product type in China for the years indicated:

	Year ended December 31,		
	2016	2017	2018
		(RMB in billions)	
Stocks	10,286.1	8,391.6	6,004.6
Funds	674.5	697.6	887.3
Sub-total	**10,960.6**	**9,089.2**	**6,891.9**
Bonds	48.3	41.5	50.4
Total[(1)]	**11,008.9**	**9,130.7**	**6,942.3**

(1) Excludes trading volume generated by institutional investors through trading units leasing.

In 2016, 2017 and 2018, our average brokerage commission rate of stocks and funds was 4.57bps, 4.00bps and 3.60bps, respectively. We set brokerage commission rate based on factors such as client type, transaction method, account balance, and expected trading volume. We offer and improve our differentiated value-added services to relieve the downward pressure on our average brokerage commission rate. See "—Our Personal Finance Services" for details.

Futures brokerage

We conduct our futures brokerage business in China primarily through Shenwan Futures and Hongyuan Futures. Both Shenwan Futures and Hongyuan Futures are members of Shanghai Futures

Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Exchange. Shenwan Futures also participates in SSE 50 ETF option brokerage business at the Shanghai Stock Exchange. As of December 31, 2018, we had 40 futures branches, covering 27 cities in China.

The following table sets forth a breakdown of the trading volume of our futures brokerage business by product type for the years indicated:

	Year ended December 31,		
	2016	2017	2018
		(RMB in billions)	
Commodity futures	12,424.4	10,910.0	11,693.8
Financial futures	1,588.1	1,888.8	1,977.7
Total	**14,012.5**	**12,798.8**	**13,671.5**

Margin financing and securities lending

Our interest income from margin financing and securities lending business was RMB4,063.7 million in 2017. According to the SAC, we ranked sixth in terms of interest income from our margin financing and securities lending business in 2017, and ranked seventh in terms of the balance of our margin loans and securities lent as of December 31, 2017, among all securities firms in China.

The following table sets forth a summary of key operating and financial information of our margin financing and securities lending business in China as of the dates indicated:

	As of December 31,		
	2016	2017	2018
Number of margin financing and securities lending clients	189,597	201,420	205,057
Balance of margin loans and securities lent *(RMB in millions)*	54,523.4	54,095.5	42,705.3
—balance of margin loans[(1)] *(RMB in millions)*	54,382.1	53,995.3	42,233.6
—balance of securities lent *(RMB in millions)*	141.3	100.2	471.7
Maintenance margin ratio[(2)] *(%)*	325.9	289.8	262.0

(1) Before provision for impairment losses (if any) and include overdue balance in accounts receivables.

(2) Maintenance margin ratio = (cash + total market value of securities in the margin accounts) / (balance of margin loans + amount of securities lent × current market price + total interests and fees) × 100%

As of December 31, 2018, we offered margin financing for 940 stocks and 43 ETFs, and securities lending for 156 stocks and four ETFs.

The following table sets forth a breakdown of the market value of collateral from our margin financing clients by asset types as of the dates indicated:

	As of December 31,		
	2016	2017	2018
		(RMB in millions)	
Stocks	157,463.4	152,298.6	116,050.3
Cash	10,424.1	7,831.8	8,800.2
Funds	148.3	397.1	1,555.2
Bonds	2.9	30.4	23.1
Total	**168,038.7**	**160,557.9**	**126,428.8**

We require our margin financing and securities lending clients to provide collaterals in the form of securities listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. Different conversion rates apply in calculating the value of the collaterals. We have established a conversion rate calculation system which is tailored to our circumstances while in compliance with the requirements of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. As of December 31, 2016, 2017 and 2018, the maintenance margin ratio for our margin financing and securities lending business in China was 325.9%, 289.8%, and 262.0%, respectively. In 2016, 2017 and 2018, the number of client account liquidations made for our margin financing and securities lending business was 237, 106 and 466, respectively, involving RMB120.7 million, RMB50.0 million and RMB710.7 million of liquidated funds, respectively.

Stock-backed lending

In our stock-backed lending business, eligible clients pledge their stocks to us and we provide financing to and charge interest from our clients. Based on factors such as maturity of financing, quality of the client credit and the pledged stock, and market conditions, we charge different interest rates for different transactions. Our stock-backed lending business has developed rapidly during the Track Record Period. As of December 31, 2016, 2017 and 2018, the balance of our stock-backed lending (before impairment losses) was RMB5,976.9 million, RMB32,332.5 million, and RMB43,722.5 million, respectively. We ranked seventh in terms of the balance of our stock-backed lending business as of December 31, 2017, among all securities firms in China, according to the SAC. As of December 31, 2018, the collateral coverage ratio of our stock-backed lending business was 204.5%.

The following table sets forth a summary of key operating and financial information of our stock-backed lending business in China as of the dates indicated:

	As of December 31,		
	2016	2017	2018
Balance of stock-backed lending[(1)] *(RMB in millions)*	5,976.9	32,332.5	43,722.5
Collaterals for stock-backed lending *(RMB in millions)*	17,339.1	73,971.8	89,546.9

(1) Before impairment losses.

We require our stock-backed lending clients to provide collaterals of sufficient value. When determining the loan-to-value ratio, we take into account various factors including, among others, market condition, nature of the collaterals, and credits of the clients. We developed a risk model calculating the loan-to-value ratio based on factors such as business operations, liquidity and financial strength and share price fluctuation of listed companies, and we also adjust such ratio regularly with reference to the analysis carried out by our research team. We have incorporated the risk management of the stock-backed lending business into our comprehensive risk management system, and adopted real-time monitoring and stress tests to manage various risks in a timely manner. For details, see "Risk Management—Risk Management and Internal Control Measures in our Major Business Lines—Personal Finance Business—Stock-backed Lending." We have taken various measures to collect overdue loans from defaulting clients, such as requiring clients to repurchase their loans or increase collaterals, liquidating client positions, or initiating legal proceedings against our clients. See "—Laws and Regulations—Litigation." There was no liquidation for our stock-backed lending business in 2016 and 2017. In 2018, the number of client account liquidations made for our stock-backed lending

business was five, and the amount of liquidations was RMB113.4 million. In 2016, 2017 and 2018, the average loan-to-value ratio under our stock-backed lending business was 0.34, 0.44 and 0.49, respectively.

In 2017, the CSRC announced updated regulations governing the dispositions of shares held by a major shareholder (holding over 5% of the total shares of a listed company) of a listed company in China, which limit our ability to liquidate clients' positions at the time of default. In 2018, the Shanghai Stock Exchange and the Shenzhen Stock Exchange announced updated rules governing stock-backed lending business, which imposed more stringent requirements on client eligibility, use of proceeds, business concentration and collateral coverage ratio. See "Regulatory Environment—Regulatory Environment of the PRC—Regulation on Operations—Stock-backed Lending Transaction Business." In response to such requirements, we have enhanced our business practice and risk management for our stock-backed lending business, by refining our business guidelines, adopting more stringent project management and concentration risk controls, upgrading our management systems, as well as enhancing post-lending management and our team's execution capabilities. See "Risk Management."

As of December 31, 2016, 2017 and 2018, collaterals for our stock-backed lending business primarily consisting of stocks traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, totaled RMB17,339.1 million, RMB73,971.8 million, and RMB89,546.9 million, respectively.

In addition to stock-backed lending, we also offer stock repurchase services, where we purchase securities from clients pursuant to the repurchase agreements, and clients shall repurchase those securities within the agreed term at the agreed price. As of December 31, 2018, the balance of our stock repurchase business was RMB31.4 million.

Sales of financial products

We sell our financial products, including our asset management schemes and structured notes, and also distribute financial products developed by third parties, including mutual funds, private investment funds, wealth management products issued by commercial banks, and other financial products. As of December 31, 2018, we offered 4,787 third-party financial products, including 4,700 mutual funds, 84 private investment funds and three wealth management products of commercial banks. Our clients can purchase financial products through our securities branches, mobile apps and our websites.

The following table sets forth a breakdown of our sales of financial products by type for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Sales of our financial products			
Asset management schemes [(1)]	33,007.0	36,452.0	42,858.0
Structured notes [(2)]	17,155.0	27,263.6	43,643.5
Sub-total	**50,162.0**	**63,715.6**	**86,501.5**
Sales of third-party financial products			
Mutual funds	83,949.9	64,962.5	45,306.8
Wealth management products	8,509.3	5,475.0	4,458.4
Other financial products [(3)]	1,365.0	1,076.0	6,770.3
Sub-total	**93,824.2**	**71,513.4**	**56,535.4**
Total	**143,986.2**	**135,229.0**	**143,036.9**

(1) Asset management schemes are standardized financial products issued and managed by authorized mutual fund management companies or securities firms that raise funds from specific clients and invest for the interest of the clients in fixed income, equity, or a mix of both.

(2) Structured notes are debt financing instruments issued by the securities firms that correlates the repayment of principal and interests with specific targets, including but not limited to currency interest rates, base commodities, securities values, or indexes.

(3) Other financial products primarily include private investment funds and asset management products.

We have set up a comprehensive risk rating system to evaluate the risk exposure associated with the products distributed by us as well as to meet our clients' needs with regard to various risk and return preferences. For mutual fund products developed by third parties, we commission independent third-party assessors to conduct risk ratings. For other products developed by third parties, we have also formulated detailed risk rating policies. See "Risk Management—Risk Management and Internal Control Measures in Our Major Business Lines—Personal Finance Business—Sales of Financial Products."

Our Personal Finance Clients

We classify our personal finance clients into the following four groups mainly by account balance:

- *General clients:* clients with daily average assets of less than RMB500,000;
- *Affluent clients:* clients with daily average assets of more than RMB500,000 but less than RMB5.0 million, or annual revenue contribution of more than RMB20,000;
- *High-net-worth clients:* clients with daily average assets of more than RMB5.0 million, or annual revenue contribution of more than RMB50,000; and
- *Non-professional institutional clients:* institutional clients whose main businesses are not securities investment or trading in capital markets.

The table below sets forth the number of our personal finance clients in China and their account balance as of the dates indicated:

	As of December 31,					
	2016		2017		2018	
	Number of clients	Balance	Number of clients	Balance	Number of clients	Balance
	(thousands)	(RMB in millions)	(thousands)	(RMB in millions)	(thousands)	(RMB in millions)
Non-professional institutional clients	21.0	1,519,061.0	21.6	2,060,330.2	21.8	1,796,295.5
Individual clients						
—High-net-worth clients	29.0	330,668.2	25.4	318,785.3	19.0	236,780.5
—Affluent clients	355.1	288,477.0	311.9	272,793.7	253.1	199,662.7
—General clients	5,681.5	178,779.6	5,901.8	179,873.8	6,274.9	152,182.3
Sub-total	**6,065.6**	**797,924.8**	**6,239.1**	**771,452.8**	**6,547.2**	**588,625.6**
Total	**6,086.6**	**2,316,985.8**	**6,260.7**	**2,831,783.0**	**6,569.0**	**2,384,921.1**

Our Personal Finance Services

We provide our personal finance clients with professional, diversified and customized wealth management services:

- For general clients, we provide convenient wealth management services through our online platform, including basic trading, market information, and investment news.
- For affluent clients, our designated investment advisors provide one-on-one services including customized research and advisory reports, and professional asset allocation advice based on their investment preference and risk appetite.
- For high-net-worth clients, we assign professional investment advisory team and provide customized wealth management value-added services, including research, comprehensive information, and customized investment and financing services.
- For non-professional institutional clients, we provide comprehensive financial services including research services, customized asset management services, block trades, and financing solutions.

Online Service Platform

We provide personal finance services through our well-established online platform, including websites, mobile apps, PC terminals and WeChat official accounts. Our online distribution platform offers a variety of services, such as account opening, transaction execution, sales of financial products and product and market information. In 2013, we became one of the first securities firms in China to offer online account opening service.

Our online platform has become an important channel for account opening and transaction execution for our personal finance business. During the Track Record Period, over 723,860 or 91.0% of our new brokerage accounts were opened through our online platform. From 2016 to 2018, our brokerage orders placed through PC terminals decreased from 55.8% to 47.6% and the orders placed through mobile devices increased from 35.1% to 43.4%.

According to Analysys, in 2018, the number of our average monthly active users of our mobile apps was approximately 2.8 million. In 2018, the number of clients using our WeChat official accounts reached approximately 1.0 million.

Our "Big Winner" mobile app provides a number of advanced services and functions such as live video and audio of research and information, online investment tutorials, and intelligent stock selection and analysis.

Service Teams

We have a strong investment advisory team and marketing team. As of December 31, 2018, we had approximately 1,850 licensed investment advisors and approximately 5,300 marketing personnel, of which approximately 1,500 were full-time client managers and approximately 3,800 were securities brokerage agents.

Institutional Services and Trading

Our institutional services and trading business consists of prime brokerage, research services, and proprietary trading.

We closely cooperate with a large number of commercial banks, insurance companies, fund management companies, securities firms and trusts companies. We provide one-stop financial solutions and comprehensive services to meet various investment and financing needs of our institutional clients. As of December 31, 2018, we had over 1,000 institutional clients, including over 100 mutual fund managers, 600 private investment fund managers, 50 insurance companies, 130 commercial banks, and 270 overseas institutional clients, such as QFIIs, RQFIIs and B-share institutional investors.

In 2016, 2017 and 2018, the segment revenue and other income from our institutional services and trading business amounted to RMB3,102.8 million, RMB4,487.4 million, and RMB8,864.0 million, respectively, representing 14.3%, 21.4%, and 36.8% of our total revenue and other income, respectively. The following table sets forth a breakdown of our total revenue and other income from our institutional services and trading business by business lines for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Prime brokerage	1,240.0	40.0%	1,143.2	25.5%	1,097.2	12.4%
Research	56.7	1.8	23.9	0.5	32.7	0.4
Proprietary trading	1,798.9	58.0	3,315.0	73.9	7,727.3	87.1
– FICC sales and trading	1,979.1	63.8	2,951.8	65.8	7,678.3	86.5
– Equity sales and trading	(180.2)	(5.8)	363.2	8.1	49.0	0.6
Others	7.2	0.2	5.3	0.1	6.8	0.1
Total	**3,102.8**	**100.0%**	**4,487.4**	**100.0%**	**8,864.0**	**100.0%**

Prime brokerage

Our prime brokerage business consists mainly of trading units leasing, prime brokerage system and fund administration services. Our prime brokerage business has developed rapidly in recent years due to our leading prime brokerage trading systems, strong sales and product management teams and service capabilities.

Trading units leasing

We lease trading units to mutual fund managers and insurance companies, who are not members of stock exchanges, enabling them to trade securities on the PRC stock exchanges. We enter into leasing contracts with our clients which set forth the commission rates and number of trading

units. We leased 874, 1,042 and 1,170 trading units as of December 31, 2016, 2017 and 2018, respectively, and generated revenue of RMB621.4 million, RMB475.1 million and RMB405.6 million in 2016, 2017 and 2018, respectively. We ranked third and fourth in terms of revenue from trading unit leasing services in 2016 and 2017, respectively, among all securities firms in China, according to the SAC.

Securities brokerage, margin financing and securities lending, and sales of financial products

We provide securities brokerage, margin financing and securities lending, as well as sales of financial products services to our institutional clients other than mutual fund management companies and insurance companies. Our trading volume of securities, balance of our margin loans and securities lent, and our sales of financial products, as set out in "—Personal Finance", include the respective proportion contributed by our institutional clients in our prime brokerage business.

Prime brokerage system

We provide high-end prime brokerage systems, customized trading systems and trading strategies algorithms to institutional clients. As of December 31, 2016, 2017 and 2018, our prime brokerage systems served RMB30.0 billion, RMB56.5 billion and RMB141.7 billion of client assets, respectively.

Fund administration services

Our fund administration services mainly include fund unit registration and fund valuation calculation services. We also provide supervision services over fund accounts as well as value-added services such as information disclosure support, performance valuation services and policy guidance. As of December 31, 2016, 2017 and 2018, we served RMB10.9 billion, RMB21.1 billion, and RMB23.5 billion of assets under our fund administration services, covering 155, 332 and 468 funds, respectively.

Research

We provide various research and consultation services through SWS Research. Our research institute was established in 1992, being the first research institute as a standalone legal entity in the securities industry in China. Our research institute provides comprehensive research and consultation services covering macroeconomics, strategies, fixed-income, financial engineering, sectors, companies and market policies. As of December 31, 2018, our research institute had 198 research personnel, covering all sectors and 696 A-share listed companies with an aggregate market capitalization of RMB29.9 trillion, representing 19.5% and 62.6% of the total number of A-share listed companies and the total market capitalization value, respectively, making us one of the research institutes covering the most A-share listed companies. We started to build our overseas research team in 2008. As of December 31, 2018, our research institute covered 77 Hong Kong listed companies, including 62 associated with the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect with an aggregate market capitalization of HK$7.9 trillion, representing 13.5% of all the companies covered by the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and 31.2% of the total market capitalization of such companies, respectively. Our research results have been consistently and highly recognized in the industry:

- During the 15 years from 2003 to 2017, in the "Best Analysts" (最佳分析師) selection by New Fortune(新財富), members of our research institute (including teams) were awarded

the "Best Analysts" in various areas for 234 times, ranking second among all securities firms in China;

- Among the selection, our research institute was awarded nine times for "Most Influential Research Institute in China" (國內最具影響力研究機構);
- Among the selection, analysts (including teams) of our research institute were awarded the "Best Analysts" for the most times in each of the specific categories consisting of strategy research, macroeconomics, financial engineering, forestry and fishery, pharmaceuticals, fundamental chemical engineering, petrochemical and coal mining, ranking first among all securities firms in China; and
- From 2013 to 2018, 49 of our analysts (including teams) were awarded the "Best Analyst" by Asiamoney.

Our research institute conducts comprehensive research while distinguishing itself in the development of research systems, personnel cultivation and formulation of market standards. We safeguard the consistency of our research reports publication through key assumption sheets, monthly review meetings and weekly executive committee meetings, and such systemic research planning is highly recognized by clients. We provide comprehensive training for our analysts each year, such as industry elite classes, training camps for investment research and analyst training classes. Shenwan Industry Index and Shenwan Stock Index, which we developed, have provided important support to asset allocation and investment performance evaluation of institutional clients and been widely adopted. The Shenzhen Stock Exchange has applied our Shenwan Industry Index in its risk supervision system. The Ministry of Transport of China has also incorporated our Shenwan Transport Industry Index into its internal system.

Proprietary trading

We engage in the trading of FICC, equity and equity-linked securities with our own funds or as a counterparty to institutional clients. Based on our trading capabilities, we offer sales, market-making, hedging and OTC derivatives services to institutional clients. We regularly review and adjust our investment strategy and asset allocation based on market conditions, our liquidity and financial resources, and other conditions. In response to the adoption of the IFRS 9, we updated our financial reporting and trading record retention policies and also adjusted our investment and trading strategy, especially surrounding our investment allocations over equity securities and FICC.

The table below sets forth an overview of our proprietary trading activities for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except average rate of return)		
Total revenue and other income from proprietary trading	1,798.9	3,315.0	7,727.3
Net investment gains	1,400.9	2,471.7	4,574.4
Interest income	396.5	804.6	747.9
Other income[1]	1.5	38.7	2,405.0
Average rate of return[2] (%)	3.6	5.0	5.6
Average rate of return for FICC sales and trading[3] (%)	6.3	5.5	7.0
Average rate of return for equity sales and trading[4] (%)	(1.5)	3.2	(6.1)
Total expense	2,012.6	3,050.5	6,380.0
Mainly including:			
Interest expense	1,635.9	2,613.8	3,216.0
Cost of commodity trading business	—	37.6	2,298.0
Impairment loss	295.5	202.3	128.7

(1) Mainly includes income from our basis trading activities.

(2) Equals to our net investment gains from proprietary trading business excluding realized income from our contribution to the designated accounts at China Securities Finance, divided by the average balance of investment position of proprietary trading business of Shenwan Hongyuan Securities at the beginning and the end of the year.

(3) Equals to our net investment gains from FICC sales and trading business divided by the average balance of investment position of FICC sales and trading business of Shenwan Hongyuan Securities at the beginning and the end of the year.

(4) Equals to our net investment gains from equity sales and trading business excluding realized income from our contribution to the designated accounts at China Securities Finance, divided by the average balance of investment position of equity sales and trading business of Shenwan Hongyuan Securities at the beginning and the end of the year.

We conduct proprietary trading business mainly through Shenwan Hongyuan Securities. The table below sets forth the investment position by asset type of Shenwan Hongyuan Securities as of the dates indicated:

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
FICC			
Bonds	27,008.4	53,764.9	79,222.1
Derivative financial instruments and others	(857.7)	(2,648.1)	0
Subtotal[1]	**26,150.7**	**51,116.8**	**79,222.1**
Equity			
Stocks[2]	4,788.2	4,745.8	2,137.7
Funds	1,950.9	476.3	1,275.8
Derivative financial instruments	(12.1)	(25.8)	(9.7)
Hybrid securities	450.3	1,502.1	1,196.0
Market making	1,295.4	1,108.6	797.4
Others[3]	2,197.2	2,302.0	179.1
Subtotal[4]	**10,669.9**	**10,109.0**	**5,576.3**
Total[5]	**36,820.6**	**61,225.8**	**84,798.4**

(1) Equals to (i) financial assets at fair value through profit or loss plus available-for-sale financial assets, investments classified as receivables and derivative financial assets, and minus financial liabilities at fair value through profit or loss and derivative financial liabilities as of December 31, 2016 and 2017; or (ii) financial assets measured at amortized cost plus financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial assets, and minus financial liabilities at fair value through profit or loss and derivative financial liabilities as of December 31, 2018.

(2) Exclusive of our contribution to the designated accounts at China Securities Finance.

(3) Mainly include asset management schemes.

(4) Equals to (i) financial assets at fair value through profit or loss plus available-for-sale financial assets and derivative financial assets, minus financial liabilities at fair value through profit or loss and derivative financial liabilities as of December 31, 2016 and 2017; or (ii) financial assets measured at amortized cost plus financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial assets, minus financial liabilities at fair value through profit or loss and derivative financial liabilities as of December 31, 2018.

(5) Exclusive of the investment position of our liquidity management.

We set and review our limits of investment scale and risk tolerance for our proprietary trading business on an annual basis. The investment scale limit of our fixed-income securities and their derivatives sales and trading business calculated by our risk management departments as of December 31, 2018 was RMB66.0 billion, the risk loss limit was RMB450.0 million, and the leverage ratio was no higher than seven times. Our investment scale limit of equity securities and their derivatives sales and trading business calculated by our risk management departments as of December 31, 2018 was RMB6.0 billion and the risk loss limit was RMB1.1 billion. For details, see "Risk Management—Risk Management and Internal Control Measures in Our Major Business Lines—Proprietary Trading."

FICC sales and trading

We conduct our FICC business in the PRC inter-bank bond market, stock exchanges, commodities and futures exchanges and gold exchanges with our own accounts. The balance of our own capital deployed to FICC sales and trading of Shenwan Hongyuan Securities was RMB11.6 billion, RMB10.9 billion, and RMB14.4 billion, respectively, as of December 31, 2016, 2017 and 2018.

Fixed-income

Our fixed-income sales and trading business emphasizes on the research of market trends and investment in fixed-income securities with low to medium risks. As of December 31, 2018, the balance of our investment in fixed-income securities graded AA+ and higher according to rating agencies in China was RMB62.1 billion, accounting for 78.4% of our total balance. In 2016, 2017 and 2018, the return of our own capital used in fixed-income securities investment was 10.5%, 6.0% and 16.4%, respectively.

We trade interest rate derivatives, including treasury bonds futures and interest rate swaps, to hedge and arbitrage our interest rate risk. As of December 31, 2016, 2017 and 2018, the notional amount of our interest rate derivatives was RMB51.7 billion, RMB52.2 billion and RMB61.1 billion, respectively.

We have a strong sales capability in distributing non-financial corporate bonds. Our bonds distribution business has a large number of institutional clients, covering various types such as large banks, funds, insurance companies, and securities firms, with whom we have maintained long-term and stable relationship. In 2016, 2017 and 2018, we distributed 12.6%, 12.8% and 9.1%, respectively, of the debt financing instruments for non-financial enterprises in China.

Commodities

We conduct basis trading mainly through one of our futures subsidiaries in China. In a typical basis trading transaction, we simultaneously enter into opposite positions in spot and futures market for a certain type of underlying commodity and aim to profit from the price differential between the two markets.

We also carry out gold leasing business. We borrow gold from a commercial bank and immediately sell the commodities to a counterparty, usually the lending bank itself, under a forward contract, for a short-term financing. In addition, we trade commodity derivatives, including precious metal futures, commodity futures and precious metal options, to facilitate clients' commodity trading and risk management needs. As of December 31, 2016, 2017 and 2018, the notional amount of our commodity derivatives was RMB1.0 billion, RMB2.7 billion and RMB2.7 billion, respectively.

Equity sales and trading

Equity Trading

We trade stocks with our own accounts and pursue absolute returns. We select equity securities based on macro-economic research, market cycle analysis and fundamental factors such as investigation on the industry, business models, financial position and quality of management teams of the target companies. We continuously adjust our trading strategies based on market trends and conditions. In addition, we hedge against market fluctuations through Alpha quantitative trading to enhance stability of returns on our trading. In typical Alpha quantitative trading, we enter into futures contracts based on the CSI300 Index and participate in hedging activities of equity trading. We also engage in arbitrage and quantitative trading business of stocks, funds and derivatives, and formulate and apply numerous quantitative trading strategies. During the Track Record Period, we gradually reduced our equity trading positions to control our risk exposure.

OTC derivatives

During the Track Record Period, we have enhanced our counterparty derivatives services to meet various transaction and risk management needs of our clients. We were one of the first securities firms qualified to conduct OTC derivatives business. The notional amount of our equity derivatives was RMB2.9 billion, RMB3.0 billion and RMB20.1 billion, respectively, as of December 31, 2016, 2017 and 2018. Our counterparty derivatives services mainly include:

- *Return swap:* A return swap is an OTC derivatives transaction under which we enter into agreements with qualified clients to swap the return, based on the pre-agreed nominal principal amount and rate of return during a given period in the future. The amount of return to be swapped between both parties should be linked to the performance of the underlying securities. Return swap is an OTC financial product provided to our clients to meet their investment and risk management needs, instead of financial instruments used for our own hedging purposes. During the Track Record Period, we executed 1,612 return swaps on the OTC market.
- *OTC options:* We enter into OTC derivatives agreements with our clients. The agreements contain provisions on return for both parties, and the rate of return is usually linked to underlying assets. During the Track Record Period, we traded 585 options on the OTC market.

Market making

We provide market making services for financial products traded on the stock exchanges and the NEEQ:

- *Market making for ETFs and ETF options:* We provide market making services for ETFs and ETF options to enhance their market liquidity and earn the difference between the quoted trading prices of ETFs, including gold, treasury bonds and currency ETFs.

- *Market making on the NEEQ:* We actively provide market making services on the NEEQ. We profit from the difference between the quoted trading prices of listed securities. As of December 31, 2018, we provided market making services for 326 companies listed on the NEEQ.

Investment Management

Our investment management business consists of asset management, mutual fund management and private equity fund management services. As of December 31, 2018, the aggregate AUM of our investment management business was RMB731.7 billion. In 2016, 2017 and 2018, segment total revenue and other income from our investment management business amounted to RMB2,623.6 million, RMB2,049.4 million, and RMB1,941.7 million, respectively, representing 12.1%, 9.8%, and 8.1% of our total revenue and other income, respectively. The following table sets forth a breakdown of our total revenue and other income from our investment management business by business lines for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Asset management	2,232.5	85.1%	1,682.9	82.1%	1,651.9	85.1%
Mutual fund management	336.3	12.8	306.9	15.0	226.5	11.7
Private equity fund management	26.6	1.0	27.5	1.3	41.9	2.2
Others	28.2	1.1	32.1	1.6	21.4	1.0
Total	**2,623.6**	**100.0%**	**2,049.4**	**100.0%**	**1,941.7**	**100.0%**

Asset management

Securities firm asset management

Our predecessor, Shenyin & Wanguo Securities, was among the first PRC securities firms approved by the CSRC in 2002 to carry out asset management business. It has subsequently obtained several qualifications including asset management for specialized clients, entrusted insurance management and QDII. We generate income primarily from charging management fees based on the AUM and performance-based fees. We charge performance-based fees on discretionary collective and single asset management schemes. According to Wind Info, as of December 31, 2018, the aggregate AUM of our asset management of securities firms was RMB674.0 billion, ranked fifth among all securities firms in China.

Our securities firm asset management services are carried out through the following types of asset management schemes:

- *Collective asset management schemes:* We manage assets for multiple clients through designated accounts pursuant to applicable laws and collective asset management contracts.
- *Single asset management schemes:* We manage assets for a single client, through designated accounts pursuant to specific protocols, conditions, requirements and restrictions stipulated in bilateral contracts between the client and us.
- *Specialized asset management schemes:* We manage certain assets for a specific purpose, primarily for asset-backed securities.

The following table sets forth a breakdown of the AUM, revenue and rate of return of our securities firm asset management schemes by type as of the dates or for the years indicated:

	As of December 31,								
	2016			2017			2018		
	AUM	Revenue	Rate of return[1]	AUM	Revenue	Rate of return[1]	AUM	Revenue	Rate of return[1]
	(RMB in millions, except rate of return)								
Collective asset management schemes									
Discretionary management products	39,429.6	637.2	1.62%	38,927.7	390.3	1.00%	55,217.7	568.3	1.03%
Non-discretionary management products	0	0	–	0	0	–	0	0	–
Sub-total	**39,429.6**	**637.2**	**1.62**	**38,927.7**	**390.3**	**1.00**	**55,217.7**	**568.3**	**1.03**
Single asset management schemes									
Discretionary management products	127,926.8	694.3	0.54	87,158.8	234.4	0.27	85,413.2	267.4	0.31
Non-discretionary management products	508,454.0	333.9	0.07	705,972.9	328.4	0.05	516,883.9	274.1	0.05
Sub-total	**636,380.8**	**1,028.2**	**0.16**	**793,131.7**	**562.9**	**0.07**	**602,297.1**	**541.5**	**0.09**
Specialized asset management schemes									
Discretionary management products	10,748.1	23.2	0.22	9,527.1	22.2	0.23	16,486.4	80.6	0.49
Non-discretionary management products	0	0	–	0	0	–	0	0	–
Sub-total	**10,748.1**	**23.2**	**0.22**	**9,527.1**	**22.2**	**0.23**	**16,486.4**	**80.6**	**0.49**
Total									
Discretionary management products	178,104.5	1,354.7	0.76	135,613.6	646.9	0.48	157,117.3	916.2	0.58
Non-discretionary management products	508,454.0	333.9	0.07	705,972.9	328.4	0.05	516,883.9	274.1	0.05
Total	**686,558.5**	**1,688.6**	**0.25%**	**841,586.5**	**975.3**	**0.12%**	**674,001.2**	**1,190.3**	**0.18%**

(1) Rate of return = Revenue / AUM × 100%

Collective asset management

As of December 31, 2018, we had 137 collective asset management schemes outstanding, covering bonds, stocks, money markets, FOFs, and alternative assets with a total AUM of RMB55.2 billion. We generally charge management fees based on the AUM, generally between 0.4% and 1.5% annually. We also charge performance fees on certain schemes, which are generally 10%-50% of the excess return. Our collective asset management products have a wide range of investment targets and flexible investment periods.

Selected collective asset management schemes include:

- *"Wenxing" Series (「穩興」系列, formerly known as "Wenying" Series 「穩贏」系列):* a fixed income scheme mainly investing in fixed income assets and money market instruments, which is suitable for clients who prefer medium to low risks. As of December 31, 2018, the aggregate AUM of this series was RMB12.7 billion.
- *"Tiantianzeng" Series (「天天增」系列):* a cash management scheme which mainly invests on cash equivalents with good liquidity. Once our client subscribes with this scheme, the balance in their account with us will be automatically invested in the scheme,

allowing them to achieve higher interest rate than bank demand deposits while maintaining flexibility of same-day withdrawal. As of December 31, 2018, the aggregate AUM of this series was RMB10.0 billion.

- *"Rixinyueyi" Series (「日新月異」系列):* a fixed income scheme mainly investing in fixed income assets, cash and cash equivalents, and derivative assets, suitable for professional investors who prefer medium risk, institutional investors designated by our distribution partners, as well as general investors whose risk evaluation results are secure, active or aggressive. As of December 31, 2018, the aggregate AUM of this series was RMB1.5 billion.

Single asset management

In general, our single asset management schemes have a minimum subscription requirement of RMB10.0 million. We generally charge management fees based on the AUM, as well as performance fees for certain schemes. As of December 31, 2018, the aggregate AUM of our single asset management schemes was RMB602.3 billion, involving 693 single asset management schemes, covering bonds, stocks, money markets, FOFs and alternative assets.

We aim to provide our clients with portfolios covering a wide range of investment scale, holding periods and risk and return characteristics. Selected single asset management schemes include:

- "SPDB Guangzhou Branch—Shenwan Hongyuan FOF Featured No. 1 Targeted Asset Management Scheme" (「浦發廣分申萬宏源FOF臻選1號定向資產管理計劃」): This single asset management scheme is an actively managed FOF. As of December 31, 2018, the principal amount of this scheme under our management was RMB1.6 billion.

Specialized asset management

As of December 31, 2018, we had 18 specialized asset management schemes outstanding with an aggregate AUM of RMB16.5 billion. Our selected specialized asset management schemes are:

Year	Name of Scheme	Underlying Assets
2018	Shenwan Hongyuan- Yongda Finance Leases Phase 1 ABS (申萬宏源—永達融資租賃一期資產支持專項計劃)	Finance leasing assets
2018	2017 Fareast Phase 4 ABS (2017遠東四期資產支持專項計劃)	Finance leasing assets
2017	AUX Lease Phase 5 ABS (奧克斯租賃五期資產支持專項計劃)	Finance leasing assets
2015	Yunnan Baoshan Su Pai He Hydroelectric ABS (雲南保山蘇帕河水電資產支持專項計劃)	Toll receivables
2015	Nanjing Public Transportation (Group) Co Ltd Public Transport Toll Receivables ABS (南京公交集團公交經營收費收益權資產支持專項計劃), which was the first ABS with the underlying asset of toll receivables of public transportation	Toll receivables

Asset Management by SWS MU

SWS MU was established in January 2004 with approval from the CSRC. SWS MU established a wholly-owned subsidiary, SWS MU（Shanghai）Asset Management Co., Ltd. in March 2014, which engages in asset management business for specialized clients. The asset management business of SWS MU and its subsidiary includes collective asset management schemes and single asset management

schemes. In 2016, 2017 and 2018, income from asset management of SWS MU was RMB130.5 million, RMB89.5 million and RMB46.1 million, respectively.

The following table sets forth the breakdown of the AUM of the asset management schemes under SWS MU's management by type as of the dates or for the years indicated:

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Collective asset management schemes	9,100.2	2,414.5	396.2
Single asset management schemes	73,959.4	48,948.0	25,650.5
Total	**83,059.6**	**51,362.5**	**26,046.7**

As of December 31, 2018, SWS MU and its subsidiary had seven collective asset management schemes under management, mainly covering equity and quantitative hedging with a total AUM of RMB396.2 million.

As of December 31, 2018, SWS MU and its subsidiary had 54 single asset management schemes under management, mainly covering the equity and fixed income markets with a total AUM of RMB25.7 billion.

Asset Management by Futures Companies

Shenwan Futures and Hongyuan Futures, two of our subsidiaries, also engage in asset management business through collective asset management schemes and single asset management schemes.

The following table sets forth the breakdown of the AUM of the asset management schemes of Shenwan Futures and Hongyuan Futures by type as of the dates or for the years indicated:

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Collective asset management schemes	8,830.2	3,453.6	1,440.9
Single asset management schemes	150.2	445.6	22.0
Total	**8,980.4**	**3,899.2**	**1,462.9**

Collective Asset Management

As of December 31, 2018, Shenwan Futures and Hongyuan Futures had 42 collective asset management schemes under management, covering bonds, stocks, futures and FOF markets with a combined AUM of RMB1.4 billion. We generally charge annual management fees based on the AUM (generally between 0.05% and 2%), as well as performance fees on certain schemes, which are generally between 10% and 50% of the excess return.

Single Asset Management

In general, our single asset management schemes have a minimum subscription requirement of RMB1.0 million. For single asset management schemes, we earn management fees based on the annualized investment return rate and performance-based fees. As of December 31, 2018, the combined AUM of Shenwan Futures and Hongyuan Futures' single asset management schemes was RMB22.0 million, involving six asset management schemes, covering bonds and futures markets.

Mutual Fund Management

We carry out our mutual fund management business mainly through SWS MU. As of December 31, 2016, 2017 and 2018, SWS MU had 27, 37 and 34 mutual funds under management, respectively, with a total AUM of RMB34.1 billion, RMB30.2 billion and RMB26.2 billion, respectively.

Over the past 14 years, SWS MU has developed expertise in index and quantitative investment with funds covering various types under its management. SWS MU has also built up a professional quantitative investment management team and quantitative investment and research platform.

Our Quantitative Small-cap Stock Securities Investment Fund (量化小盤股票型證券投資基金) is our signature mutual fund product. This fund was established in June 2011. Based on our proprietary multi-factor quantitative stock selection model, the fund focuses on small-cap value stocks and selects sector leaders that offer good value. From its establishment in 2011 and up to 2017, this fund recorded positive gains for six consecutive years and won multiple awards, including the "Gold Fund Award" (「金基金獎」) from Shanghai Securities News(上海證券報) for three consecutive years from 2016 to 2018, "Star Fund Award" (「明星基金獎」) from Securities Times (證券時報) for three consecutive years from 2016 to 2018 and the "Golden Bull Award" (「金牛獎」) from China Securities Journal (中國證券報) in 2015 and 2016. As of December 31, 2018, the AUM of this fund was RMB1.7 billion.

Fullgoal Fund

Fullgoal Fund, our associated company, was established in April 1999 as one of the first ten fund management companies in China. As of December 31, 2018, we held approximately 27.8% equity interest in Fullgoal Fund. As of December 31, 2018, the total AUM of Fullgoal Fund was RMB434.0 billion, including 124 mutual funds with a total AUM of RMB197.3 billion. For 2016, 2017 and 2018, our share of profits from Fullgoal Fund amounted to RMB208.8 million, RMB200.4 million and RMB197.0 million, respectively.

Private Equity Fund Management

We, through our subsidiaries Hongyuan Huizhi, Hongyuan Huifu, Shenwan Hongyuan Industrial Investment, Shenyin & Wanguo Investment and Shenyin & Wanguo Alternative Investment, engage in private equity fund management in China. We establish, manage and invest in various private equity funds, and earn fund management fees, performance fees and investment income. As of December 31, 2018, we managed 16 private investment funds with an aggregated AUM of RMB3,974.0 million.

The five largest private investment funds managed by us by invested fund size as of December 31, 2018 are set forth below:

Fund Name	Time of establishment	Fund management company	Invested fund size (RMB in millions)	Investment focus
Shenhong Zhong Yu—Bloomage Group Contractual Private Equity Investment Fund (申宏中裕—華熙集團契約型私募投資基金)	2017	Hongyuan Huizhi; Zhong Yu Dingxin Asset Management (Beijing) Co., Ltd. (中裕鼎信資產管理（北京）有限公司)	900.0	Set up for the comprehensive remediation project of Chongqing Banan Sports Center owned by Bloomage International Investment Group INC. (華熙國際投資集團有限公司) through entrusted loans
CCI CASJF Kunshan Project Specialized Contractual Private Equity Fund (中外建中科建飛昆山項目專項契約型私募基金)	2017	CCI (Beijing) Investment Fund Management Co., Ltd. (中外建（北京）投資基金管理有限公司); Hongyuan Huizhi	800.0	Set up for CASJF Investment Holding Group Co., Ltd. (中科建飛投資控股集團有限公司) to pay for construction services and repay the loans that are due through entrusted loans
Beijing Hongyuan Recyclable Energy Investment Center LLP (北京宏源循環能源投資中心（有限合夥）)	2013	Hongyuan Recyclable Energy Investment Management (Beijing) Co., Ltd. (宏源循環能源投資管理（北京）有限公司)	410.0	Investing Xi'an Zhonghong New Energy Technology Co., Ltd. (西安中宏新能源科技有限公司) through entrusted loans for three CDQ waste-heat power generating projects in Shandong and Jiangsu
Tongxiang Shenwan Hongding Growth No. 2 Equity Investment Fund LLP (桐鄉申萬泓鼎成長二號股權投資基金合夥企業（有限合夥）)	2016	Shanghai Shenyin & Wanguo Hongding Equity Investment Management Co., Ltd. (上海申銀萬國泓鼎股權投資管理有限公司)	380.0	Investing enterprises listed on the NEEQ during their growth period and late growth period, enterprises with potential to be listed on the NEEQ, and investing some other enterprises anticipated to be able to meet IPO listing conditions
Sichuan Shenwan Hongyuan Changhong Equity Investment Fund LLP (四川申萬宏源長虹股權投資基金合夥企業（有限合夥）)	2016	Sichuan Shenwan Hongyuan Changhong Equity Investment Management Co., Ltd. (四川申萬宏源長虹股權投資管理有限公司)	310.0	Focusing on industry M&A projects provided by Sichuan Changhong Electric Co., Ltd. (四川長虹電器股份有限公司)

International Business

We conduct international business primarily through (i) Shenwan Hongyuan (H.K.) and its subsidiaries, and (ii) our international business department.

We provide brokerage, investment advisory and other services to QFIIs, RQFIIs and B-shares overseas institutional investors in China. We underwrote the first B share in 1992 in China and have been providing B-share trading services to overseas institutional investors ever since. As a result, we have served a large number of overseas institutional clients. In 2003, we completed the first transaction of QFII investment in China's A-share market as a broker, and were awarded "China's Best QFII Service Team" by 21st Century Business Herald and "Best Local Brokerage Firm in China" by Asiamoney. We maintain our leading position in our international business through (i) our sales and trading platform for institutional clients that offers close links between domestic and overseas businesses, (ii) stable and effective trading systems, and (iii) an internationalized team. In 2016, 2017 and 2018, our brokerage trading volume of B shares ranked first among all securities firms in China.

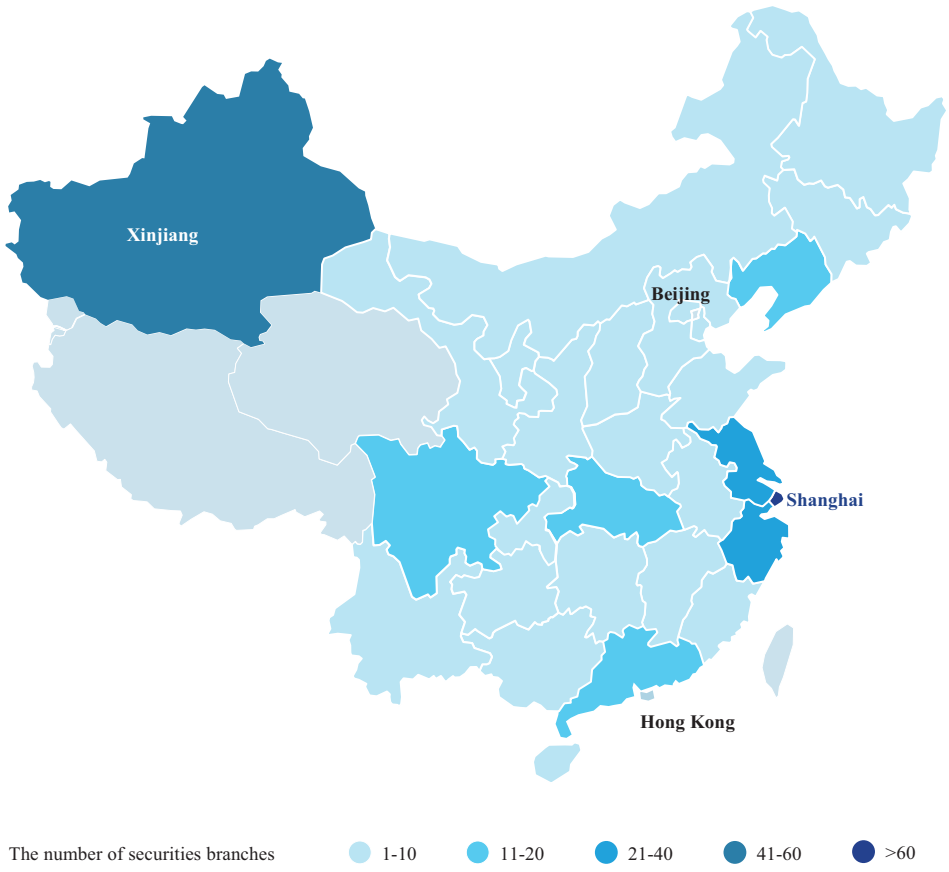
We have conducted our international business through our subsidiaries in Hong Kong for over 25 years and mainly engaged in licensed businesses such as brokerage, financing and loans, corporate finance, securities research and asset management. In 2016, 2017 and 2018, the total consolidated revenue and other income from Shenwan Hongyuan (H.K.) and its subsidiaries amounted to HK$417.7 million, HK$556.7 million and HK$521.8 million, respectively, accounting for 1.6%, 2.3% and 1.8% of our total revenue and other income, respectively. We serve institutional clients, corporate clients and individual clients in Hong Kong and around the world, providing them with comprehensive financial services related to cross-border investment and financing needs in Hong Kong and China, including:

- *Brokerage:* We provide trading services of stocks, futures and derivatives on major financial and emerging markets globally such as China, Hong Kong, the US, the UK, Singapore, Japan and Australia, with a view to providing our clients with a 24-hour global trading platform covering Europe, Asia and North America;
- *Financing and loans:* We provide our personal finance clients and institutional clients with margin financing and loans services. In 2016, 2017 and 2018, our average margin balance was approximately HK$1.9 billion, HK$2.0 billion, and HK$2.0 billion, respectively;
- *Corporate finance:* Our corporate finance business principally includes sponsorship, financial advisory, M&A and securities underwriting business. In 2016, 2017 and 2018, we completed 36, 29 and 25 corporate finance transactions, including sponsoring and lead underwriting, underwriting and financial advisory projects, respectively. Our clients include not only government-owned enterprises and private enterprises in China, but also companies from overseas markets such as Japan, South Korea, Malaysia and Singapore;
- *Securities research:* Leveraging our research teams in China, we provide investors in China and overseas with insights into assets and financial markets in China and relevant research services; and
- *Asset management:* We make full use of innovative policies such as QFII and RQFII to provide cross-border asset management and global asset allocation services. For cross-border asset management business, we obtained the first batch of RQFII quota in 2012. As of December 31, 2016, 2017 and 2018, our total AUM was approximately HK$4.1 billion, HK$4.4 billion, and HK$6.9 billion, respectively.

The total revenue and other income from our international business are divided by segment and included in the segment revenue and other income of our enterprise finance, personal finance, institutional services and trading, and investment management businesses.

BRANCH NETWORK

As of December 31, 2018, we had 48 branch offices, 310 securities branches and 40 futures branches in China, located in 29 provinces and municipalities and 129 cities. Our branches provide comprehensive financial services to our clients, which are mainly located in the regions of the Yangtze River Delta and Xinjiang. As of December 31, 2018, our branches in such regions represented approximately 41.2% and 14.1% of our total branches, respectively.



We continue to optimize our branch network. In 2018, we opened six securities branches and closed two securities branches. As of December 31, 2018, we had three securities branches under development which will open in 2019.

We have been upgrading the function of our securities branches from traditional trading hubs to full wealth management service centers, with a focus on providing comprehensive wealth management and financing services to affluent, high-net-worth and institutional clients.

INFORMATION TECHNOLOGY

We are committed to being at the forefront of technological innovation in the PRC securities industry. Through increasing client connectivity and providing value-added products and services, our technology development will largely improve our client service, improve our trading capabilities, effectively control our risks and enhance our overall management efficiency.

We have successfully established industry-leading systems including core business systems, client service terminals, client services systems, and internal control systems:

- *Our core business systems* consist of centralized trading system, margin financing and securities lending transaction system, client accounts management system, client registration system, prime brokerage investment management system, asset management system and fast order-placing system. Our centralized trading system, provides clients with order management, fund management and client settlement services, with the historical peak of processing over six million transactions per day. Our margin financing and securities lending transaction system provides order management and settlement services with the historical peak of processing over 600,000 transactions per day. Our prime brokerage investment management system primarily provides account management, transaction management, product management and risk management services to institutional clients. To provide better services to our clients, we are building our new centralized trading and settlement system, and are integrating and switching from our current systems.
- *Our client service terminals* include online trading systems both on PC and mobile apps to provide our clients with fundamental as well as our featured financial functions. Such trading systems provide basic securities information, trading, online account opening, standardized online business, online financial products supermarket, and online consultancy services.
- *Our client services systems* include retail clients CRM system, institutional clients CRM system, centralized business platform, and product center, forming a comprehensive financial products sales and services system. Our CRM systems provide various functions including marketing personnel and investment advisors management, marketing personnel performance review. Our investment advisors can also provide our services to the clients through the CRM system and client data analysis.
- *Our internal control systems* include office management system, human resources management system, financial management system, risk management system and data center. Our data center collects and integrates business data from all business systems and provide coherent data services.

IT Security

We attach significant importance to the safe and stable operation of our information technology systems. During the Track Record Period, according to the technical failure classification of the authorities, no material technical failure has occurred in our trading system. In 2012, we were the first to obtain the ISO27001 certificate in our industry, and we also obtained the ISO20000 certificate. We have established compliant data centers and back-up systems. Our data centers and disaster back-up centers are located in Beijing and Shanghai. In addition, we have data back-up centers and remote disaster back-up server centers in Chengdu and Xinjiang, respectively.

To manage the risks inherent in our online platform and in Internet finance in general, we have utilized various IT safety controls, including firewalls, data encryption and intrusion detection, client identity verification, dynamic and mobile number-linked passcodes and SSL certificates as well as IP and MAC address tracking, to safeguard our and our clients' information safety and ensure the smooth running of our IT systems.

We have implemented internal control measures over our own online platform for account opening and transaction execution. During the online account opening process, the client's identity information is automatically detected by the Optical Character Recognition. The newly opened account will be validated only after reconfirmation. We retain videos of account opening, which are checked against citizen identities kept by the authorities. For transaction execution, we check client identity and trading passwords. Both the account opening system and the online trading system are physically separated from the back-end system to ensure security.

We have also implemented internal control measures over data security and privacy protection. We have centrally managed key systems and data and made backups to ensure data security. Unauthorized data amendment and leakage of data are strictly prohibited. Through the establishment of our information security protection system, we have set up firewalls, invasion protection, encryption and other internal control measures to defend against attacks, viruses and loopholes. For privacy protection, we have strict control of sensitive client personal information. All operations accessing such information are recorded.

Meanwhile, we timely identify, inspect and tackle potential information security risks. We also equip our information system with the ability to safeguard against viruses, loopholes and attacks by establishing information security management system and different software and hardware protection systems. With the emergency response system, we improve our security management capability by regularly undertaking internal and external security auditing and security training in various aspects, to safeguard the confidentiality, completeness and availability of the information system and data, and to ensure the information system operates reliably.

We devote substantial resources to optimizing our IT systems to provide secure, stable and personalized technology services that support our growing business operations. In 2016, 2017 and 2018, our IT-related expenditures, primarily on software, digital equipment and computers, as well as telecommunication service fees, amounted to RMB360.1 million, RMB384.7 million and RMB397.7 million, respectively.

We adopt fintech to explore the potential of data, improve client experience, enhance risk controls, reduce our operation cost, as well as provide comprehensive wealth management services to our clients. Our goal is to increase our core competitiveness, support our business growth, and enhance our market strength through increasing our transaction services capabilities and data operation capabilities, which is driven by transactions and data as well as based on transaction services. Our fintech infrastructure includes our data centers, big data and artificial intelligence platform, and business, risk control and trading system.

We plan to continue setting up and upgrading servers for our data centers, investing in our proprietary risk control and trading services systems, as well as developing other innovative technologies utilizing big data, machine learning, and cloud services.

MAJOR CUSTOMERS AND SUPPLIERS

We serve individual, institutional and government clients across a spectrum of sectors. Our customers are primarily located in China. We expect to serve more overseas customers, as we seek to further expand our business internationally in the future.

In 2016, 2017 and 2018, revenue and other income attributable to our five largest customers accounted for less than 5% of our total income and other revenue.

To the knowledge of our Directors, none of our Directors, Supervisors and their respective associates or any Shareholders holding more than 5% of our issued share capital had any interests in any of our five largest customers as of the Latest Practicable Date.

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

MARKET AND COMPETITION

The securities industry in China is highly regulated and competitive. As of December 31, 2018, there were 131 registered securities firms in China according to the SAC. The top ten securities firm with the highest operating revenue among those PRC securities firms accounted for 49.1% of the industry's aggregate operating revenue in 2017, according to the SAC. Competition among PRC securities firms will remain intense.

Our major competitors are other securities firms in China with similar service scope and business scale. We also compete in different levels of cross-industry and cross-business with other financial service providers, such as fund management companies, commercial banks, insurance companies and trust companies. We compete on many aspects, including market penetration, range of products and services, price, innovation capability, quality of service, marketing and sales channels, execution capability, reputation and employee compensation. As China gradually opens up its securities industry to the world and increases the shareholding cap of foreign investors in securities firms, we also compete with foreign financial institutions, some of which have greater experience and resources than we do, have been expanding their operations in China and will continue to compete with us in providing financial products and services.

For our investment banking business, we compete primarily with other investment banks, commercial banks as well as trust companies in terms of brand recognition, marketing and distribution capacity, service quality, financial strength and pricing.

For our personal finance business, we compete primarily with other PRC securities firms and discount brokers in terms of pricing and the range of products and services offered.

For our institutional services and trading business, we compete primarily with other PRC securities firms and other financial institutions in terms of capabilities of risk management, research, providing professional institutional services, as well as capital.

For our investment management business, we compete primarily with other securities firms, fund management companies, banks, insurance companies, trust companies, private investment fund management companies and other financial institutions in China in terms of the range of products and services offered, pricing and quality of client service.

Our competitors may have certain competitive advantages over us, including greater financial resources, higher brand recognition, larger product and service offerings, a branch network with wider geographic coverage and more extensive experience.

Meanwhile, with China taking steps to open up its financial industry and ease limits on foreign stakes in securities firms, new competitors may enter into the securities industry, which could further intensify the market competition. As a result, our business, financial condition and results of operations may be materially and adversely affected. See "Risk Factors—Risks Relating to Our Business and Industry—The PRC securities industry is highly competitive."

INTELLECTUAL PROPERTY RIGHTS

As of December 31, 2018, we had 120 registered trademarks, 103 registered domain names and 70 computer software copyrights in China and four registered trademarks in Hong Kong. For details, please see "Appendix VI—Statutory and General Information—2. Further Information about Our Business—B. Our Intellectual Property Rights."

As of the Latest Practicable Date, we had not been subject to any material dispute or claims for infringement upon third parties' trademarks, licenses and other intellectual property rights.

INSURANCE

We maintain all risk insurance coverage for certain of our assets, including buildings, IT equipment and motor vehicles. Consistent with customary industry practice in China, we do not maintain any business interruption insurance.

We believe that we have maintained such insurance coverage as we consider necessary and sufficient for our operations and customary for the industry in which we operate. Moreover, our policies are subject to standard deductibles, exclusions and limitations. Therefore, insurance might not necessarily cover all losses incurred by us and we cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies.

All of our insurance policies are underwritten with reputable insurance providers and we review our insurance policies annually.

EMPLOYEES

As of December 31, 2018, we had a total of 9,764 employees. The following table sets forth a breakdown of our employees by business function as of the same date:

	Number of Employees	Percentage %
Enterprise finance	656	6.7%
Personal finance	5,778	59.2
Institutional services and trading	559	5.7
Investment management	347	3.6
Finance and audit	261	2.7
Information technology	712	7.3
Legal, compliance and risk management	501	5.1
Administration	438	4.5
Clearing	180	1.8
Others	332	3.4
Total	**9,764**	**100.0%**

The following table sets forth a breakdown of our employees by geographic region as of December 31, 2018:

	Number of Employees	Percentage %
Shanghai	3,294	33.7%
Xinjiang	984	10.1
Beijing	1,181	12.1
Other regions in China	3,955	40.5
Hong Kong and other overseas regions	350	3.6
Total	**9,764**	**100.0%**

We have established our remuneration system with both fairness and competitiveness according to our business development strategy, as well as the principal of marketization. The remuneration we provide includes basic salary, annual performance-based remuneration, benefits, and special allowances. Our basic remuneration system is based on the employee's experience and capabilities. We also link our employee's remuneration with the performance of our Group, the business departments, as well as the employee. We adjust our remuneration policies based on our results of operations from time to time.

As of December 31, 2018, we hired 368 dispatched workers via the employment agencies in China, who are responsible for assisting with administrative and logistics work.

We have established a comprehensive and multi-tier training system for all of our employees. Our regular trainings cover all material aspects of their daily work, as well as legal and compliance, and are available both online and offline. For middle to high level management, our training programs focus on enhancing their leadership and management capabilities. For new employees, we provide introduction and guidance.

We have established a labor union in accordance with PRC laws and regulations. We believe that we have maintained a good working relationship with our employees. As of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that had materially interfered with our operations.

PROPERTIES

The headquarters and principal place of business of our Group in the PRC are located at 20/F, Dacheng International Building, 358 South Beijing Road, Urumqi High-tech Zone, Xinjiang, PRC, and 19, Taipingqiao Street, Xicheng District, Beijing, PRC. As of December 31, 2018, we owned 241 properties in the PRC with an aggregate gross floor area of approximately 178,897 square meters and one parcel of land with a site area of approximately 3,004 square meters. In addition, as of December 31, 2018, we leased 432 properties with an aggregate gross floor area of approximately 271,690 square meters. As of December 31, 2018, we leased offices and did not own any properties overseas.

As of December 31, 2018, none of the carrying amount of our property interests exceeded 15% or more of our consolidated total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from

Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Owned Properties

As of December 31, 2018, among the 241 owned properties in China, we have obtained the building ownership certificates and land use right certificates of 130 properties with a total gross floor area of 148,740 square meters, representing approximately 83.1% of the total gross floor area of owned properties. Our PRC legal advisors confirmed that we owned the legal title of those properties, and thus are entitled to occupy, use, transfer, lease, mortgage or otherwise dispose of those properties.

As of December 31, 2018, among the owned properties, we have not obtained the land use right certificates of 80 properties with a total gross floor area of approximately 17,860 square meters, representing 10.0% of the total gross floor area of owned properties, as well as the building ownership certificates and land use right certificates of 28 properties with a total gross floor area of 6,215 square meters, representing 3.5% of the total gross floor area of owned properties. We have obtained the land use right certificates and building ownership certificates of three properties with a total gross floor area of 6,083 square meters, representing 3.4% of the total gross floor area of owned properties, but the land use right was obtained by way of allocation and we acquired such lands without any compensation.

The table below sets forth our owned properties with defective titles during the Track Record Period:

	Nature of the Title Defects	Details of the Properties with Defective Titles	Rectifying Measures/ Contingency Plans	Our PRC Legal Advisors' Views
1	We have not obtained the land use right certificates for certain properties.	80 properties with a total gross floor area of 17,860 square meters, representing 10.0% of the total gross floor area of our owned properties. Among such properties, 66 are used for our employees' housing, three are vacant, ten are used as offices and one is used as a warehouse. We have obtained the building ownership certificates of the above properties. In accordance with the applicable PRC laws, we are the legal users of these properties, and thus are entitled to occupy and use these properties. However, due to various reasons, such as the developers not assisting us with processing the relevant administrative procedures and failure to split the land	We tried to reach the property developers to obtain relevant documents as well as their assistance in processing the administrative procedures. We also actively communicated with the relevant authorities to rectify such defects in titles.	Our PRC legal advisors are unable to confirm whether there is any legal impediment to obtain the land use right certificates. However, considering that such properties represent only 10.0% of the total gross floor area of our owned properties, and 59.7% of such properties are not used for our business operations, such defects would have no material adverse impact on our operations or financial situation. If the land is put up for auction and disposed of as a result of matters relating to the users of the land use right, the relevant properties on that land will also be put up for auction and disposed of. In this case, we

	Nature of the Title Defects	Details of the Properties with Defective Titles	Rectifying Measures/ Contingency Plans	Our PRC Legal Advisors' Views
		use right, we have not obtained the land use right certificates. Before we obtain relevant land use right certificates, we cannot freely transfer, mortgage, or dispose of these properties.		will be exposed to the risk of losing those building ownership certificates. Nevertheless, our PRC legal advisors confirmed that we own the titles of the realized amounts of the properties being put up for auction and disposed of as we have obtained the building ownership certificates of such properties and have the legal rights of the buildings according to the PRC laws.
2	We have not obtained the land use right certificates and building ownership certificates for certain properties.	28 properties with a total gross floor area of 6,215 square meters, representing 3.5% of the total gross floor area of our owned properties. Among such properties, four are used for our employees' housing, 22 are vacant, one is used as an office and one is used as a warehouse. The major reasons for not obtaining the official building ownership certificates and land use right certificates are: (i) the specific practice of the competent authority, the local land and housing administration department of Shenzhen, (ii) our failure to obtain the assistance of the properties' developers or the properties' owners, and (iii) our lack of relevant documents necessary for obtaining the certificates, such as the documents proving the identities of the original properties' owners or us, and the documents proving ownership of the properties.	We tried to contact the relevant responsible persons to obtain the documents necessary for the certificates. We also made inquiries of the relevant government authorities. We intend to dispose of some of the properties. For example, among the 28 properties, we intend to dispose of three properties with a total gross floor area of 403 square meters, representing 0.2% of the total gross floor area of our owned properties, through legal measures, including auctions and liquidation. We have not identified any specific alternative properties for the 28 properties if we are unable to continue to use such properties and are required to relocate as a result of the defects of building ownership certificates and land use right certificates. If any relocation is required, we believe that we will find alternative legal premises in the relevant regions at minimal cost.	Our PRC legal advisors are unable to confirm whether we own the legal titles of such properties and whether we are entitled to use such properties. However, as (i) 74.3% of such properties are not used for our business operations, and (ii) if any relocation is required, we will find alternative legal premises in the relevant regions at minimal cost, such defects would have no material adverse impact on our operations or financial situation.

	Nature of the Title Defects	Details of the Properties with Defective Titles	Rectifying Measures/ Contingency Plans	Our PRC Legal Advisors' Views
3	We have obtained land use right of certain properties through allocation but have not completed the procedures for the transfer or lease of land use rights.	Three properties with a total gross floor area of 6,083 square meters, representing 3.4% of the total gross floor area of owned properties.	As these properties with defective titles are legacy issues, we are unable to ascertain when the procedures for transfer or lease of land use rights can be completed. We believe, because of the limited size of these three properties, failure to complete the procedures for the transfer or lease of land use rights will not materially and adversely affect our business and results of operations.	Our PRC legal advisors confirmed that we will be entitled to occupy, use, transfer, lease, mortgage or otherwise dispose of such properties after we obtain the state-owned land use right certificate through transfer or lease.

Owned Land

As of December 31, 2018, we owned a parcel of land with an area of approximately 3,004 square meters, located in Hubei province, China. Such parcel of land currently remained idle, where a part of it is occupied by the local gardens and greening bureau for greening purposes while a part of it is occupied by the self-help committee of the local residents in the neighborhood as paid parking lots. As of the Latest Practicable Date, such parcel of land is still occupied. Our PRC legal advisors confirmed that we are the legal right holder of the land use right of such parcel of land and are entitled to dispose of such land use right in accordance with the requirement of the PRC laws. We have not used that parcel of land for operational activities and have made full provisions for the impairment losses of the original carrying amount of such land use right. Since that parcel of land only accounts for a small proportion of the total area of our land in use, the condition of the land being occupied without our permission will not incur material adverse effects to us. We are in the process of disposing of this land and taking legal action.

Leased Properties

As of December 31, 2018, we leased 432 properties in China with a total gross floor area of approximately 271,690 square meters. Those leased properties are mainly for our operations and office use.

As of December 31, 2018, in respect of the 377 leased properties with a total gross floor area of approximately 249,473 square meters, representing approximately 91.8% of the total gross floor area of our leased properties, the owners have obtained the relevant building ownership certificates. Our PRC legal advisors confirmed that those owners of the 377 leased properties are the owners of the relevant properties or persons who are authorized to lease or sublet those properties and those leases are legal and valid.

The table below sets forth our leased properties with defective titles during the Track Record Period:

Nature of the Title Defects	Details of the Properties with Defective Titles	Rectifying Measures/ Contingency Plans	Our PRC Legal Advisors' Views
The lessors have not provided us with the building ownership certificates of certain properties, or the lessor is different from the holder of building ownership certificate and the lessor has not provided the documents proving the subletting is agreed by the holder of such building ownership certificate.	50 leased properties with a total gross floor area of approximately 18,439 square meters, representing approximately 6.8% of the total gross floor area of our leased properties. Among such 50 leased properties, 40 are used for offices, seven are used for employees' housing, and three are used for ancillary facilities.	We tried to contact the lessors to obtain the ownership certificates or the documents proving the subletting is agreed by the holder of the building ownership certificate. We face the risk that we may not be able to continue to use such properties. If the lessor is not entitled to lease those properties and is challenged by the holder of such building ownership certificates, we have to bear the additional costs incurred, which mainly include relocation fees and the rents of such leased properties. We have not identified any specific alternative properties for relocation. If any relocation is required, we believe that we will be able to relocate our office premises quickly without incurring material relocation costs, given the supply of alternative properties in those major cities offering similar rents and facilities.	As advised by our PRC legal advisors, if there is any third party raising any claim against such lease, we may be unable to continue to use such properties. However, based on the terms of the lease agreement and/or as prescribed by the PRC laws, we are entitled to require the lessors to indemnify us for the loss incurred in the event that such leases are challenged by a third party and our interests in such properties are adversely affected. Our PRC legal advisors are of the view that such defects would have no material adverse impact on our operations or financial situation as such properties only represent 6.8% of our leased properties.
The leasing contracts of some of our leased properties have expired.	Four leased properties with a total gross floor area of approximately 2,355 square meters, representing approximately 0.9% of the total gross floor area of our leased properties.	We are currently undergoing or intending to undergo renewal procedures, or planning to relocate. We will find alternative legal premises in the relevant regions at minimal cost.	Our PRC legal advisors are of the view that such defects would have no material adverse impact on our operations or financial situation, as such properties represent only 0.9% of our leased properties.
The lease term of one of our leased properties is over 20 years. According to the PRC laws, the lease term shall not exceed 20 years and the excess is invalid.	One leased property with a gross floor area of 1,423 square meters, representing approximately 0.5% of the total gross floor area of our leased properties. The lease term is 49-year.	We will amend the leasing term in the lease agreement with the lessor to ensure the validity of the leasing term should any third party raise a challenge.	Our PRC legal advisors are of the view that such defect would have no material adverse impact on our operations or financial situation due to the limited size of the property.

Nature of the Title Defects	Details of the Properties with Defective Titles	Rectifying Measures/ Contingency Plans	Our PRC Legal Advisors' Views
We have not obtained the lease registration of certain leased properties. According to the applicable PRC laws, property lease agreements are required to be registered with the real estate management authority of the PRC.	398 leased properties with a total gross floor area of approximately 249,802 square meters, representing 91.9% of the total gross floor area of our leased properties. We have not registered the lease agreements primarily due to the difficulty of procuring our lessors' cooperation to register such leases. The registration of such leases will require the cooperation of our lessors.	We will take all practicable and reasonable steps to ensure that the unregistered leases are registered. In February 2019, we issued an internal notice to our branches and subsidiaries and required them to obtain the lessors' cooperation and register the new lease agreements as soon as possible.	Our PRC legal advisors have advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under the PRC laws, and have also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB3,980,000, which will not have a material adverse impact on our operations or financial situation.

LAWS AND REGULATIONS

Licensing Requirements

We conduct our business mainly in the PRC and Hong Kong and are, therefore, subject to the relevant regulations of the PRC and Hong Kong. Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant regulatory requirements and guidelines in the jurisdictions where we operated in all material respects, and obtained the permits and licenses necessary for our operations in accordance with laws and regulations in the jurisdictions where we operate.

We renew all of our permits and licenses from time to time to comply with the relevant laws and regulations. Our Directors have confirmed that, to the best of their knowledge, as of the Latest Practicable Date, all of our employees and securities brokerage agents had obtained the relevant licenses required for their business activities. Since our A Share offering in January 2015 and up to the Latest Practicable Date, neither we nor any of our Directors had been subject to auditing or administrative penalties by the CSRC, nor have we or any of our Directors been criticized or publicly reprimanded by the Shenzhen Stock Exchange for violations of any listing rules or other relevant applicable rules.

Due to the licensing regimes of the SFC, our subsidiaries incorporated in Hong Kong are required to obtain licenses necessary to conduct their businesses in Hong Kong. Our subsidiaries incorporated in Hong Kong hold a number of licenses, including but not limited to, the Type 1 license for dealing in securities, Type 2 license for dealing in future contracts, Type 4 license for advising on securities, Type 5 license for advising on future contracts, Type 6 license for advising on corporate finance and Type 9 license for asset management. See "Regulatory Environment—Overview of Regulatory Environment in Hong Kong—Introduction—Types of regulated activities." Our Singapore subsidiary holds the capital markets services license for fund management, and dealing in capital markets products (securities, and collective investment schemes), and it is an exempt financial advisor for advising on investment products (collective investment schemes, and securities), issuing or promulgating, and analyses/reports on investment products (collective investment schemes, and securities).

Litigation

From time to time, we may become involved in legal proceedings in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition, and results of operations. Nevertheless, we set forth below certain pending litigation matters initiated by us as of the Latest Practicable Date, which we believe warrant particular attention:

Disputes regarding Stock-backed Lending Agreements

In August 2018, Shenwan Hongyuan Securities filed three complaints with the Shanghai Financial Court against three different clients of our stock-backed lending business to demand that each of them repay their outstanding principal amounts, of approximately RMB91.5 million, RMB230.9 million and RMB50.0 million, respectively, together with interest, default penalties and litigation fees. Shenwan Hongyuan Securities also applied for the liquidation of the shares underlying the overdue loans from such stock-backed lending clients.

Before we initiated the complaints, each of the three stock-backed lending clients failed to increase the collateral coverage ratio, which fell below the minimum threshold as stipulated in their respective stock-backed lending agreements with us, as the market value of the underlying pledged shares decreased. As of the Latest Practicable Date, the Shanghai Financial Court had held a trial with respect to one claim demanding the defendant to repay us approximately RMB50.0 million, and the defendant appealed. As of the same date, the Shanghai Financial Court had held a trial with respect to our second claim demanding the defendant to repay us approximately RMB91.5 million but not held any trial with respect to our third complaint.

Dispute regarding Trust Loan Agreement with Zhongke Construction and Development Corporation

From January to April 2016, Shenyin Wanguo Innovative Securities Investment Co., Ltd. (申銀萬國創新證券投資有限公司) ("Shenyin Wanguo Innovative Investment") provided a trust loan of RMB300.0 million to Zhongke Construction and Development Corporation (中科建設開發總公司) ("Zhongke Construction") through a trust scheme, which was secured by certain accounts receivable of a subsidiary of Zhongke Construction.

In June 2018, Zhongke Construction failed to make interest payments under the trust loan agreement as scheduled. In November 2018, Shenyin Wanguo Innovative Investment filed a lawsuit against Zhongke Construction, among others, to Gansu High People's Court to demand that, among other things, Zhongke Construction repay the outstanding principal amount of RMB300.0 million together with interest, default penalties and litigation fees. As of the Latest Practicable Date, the Gansu High People's Court had not held any trial with respect to the foregoing claim.

Regulatory Non-compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in China, Hong Kong, and other jurisdictions where we operate (including, but not limited to, the CSRC, the PBOC, the Shenzhen Stock Exchange, the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the SFC, the SAC, the NEEQ Company and, where applicable, their respective local branches and offices).

We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices and warnings from, or been fined by, or been investigated by, the relevant regulatory authorities. We and our employees have also been involved in certain non-compliance incidents that led to a deduction in our regulatory points. The main consequence of regulatory points deduction is that it may lead to the downgrading of our regulatory rating. See "Regulatory Environment—Corporate Governance and Risk Control—Corporate Governance and Risk Control of Securities Companies—(4) Classified Regulation" for the details of the scoring system. However, such incidents did not have a material adverse impact on our business and results of operations as our regulatory ratings have remained "(Class A) AA" for eight consecutive years, from 2011 to 2018 (granted in the middle of each calendar year).

We set out below the details of our non-compliance incidents, for which we received the regulatory letters and led to, or are likely to lead to, the deduction of regulatory points during the Track Record Period and up to the Latest Practicable Date, and the primary remedial measures adopted:

Non-compliance Incidents	Overview and Primary Remedial Measures
On April 28, 2016, the NEEQ Company issued a warning letter to Shenwan Hongyuan Securities, which stated that Shenwan Hongyuan Securities did not submit the account information of an investor in accordance with relevant rules when it granted such investor access to trading on the NEEQ as a qualified investor. The warning letter referred to Shenwan Hongyuan Securities' grant of access to an investor on April 8, 2015. This non-compliance incident resulted in the deduction of 0.25 regulatory point to us. Shenwan Hongyuan Securities submitted a rectification report on April 8, 2016 to the NEEQ Company. As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification report from the regulators.	The incident was due to the operational omissions of an employee of Shenwan Hongyuan Securities when such employee assisted the investor with obtaining access to trading on the NEEQ. Shenwan Hongyuan Securities has cancelled this investor's access to trading on the NEEQ. In addition, Shenwan Hongyuan Securities has adopted the following remedial measures since March 29, 2016: • engaged the developer of Shenwan Hongyuan Securities' trading systems to optimize the underlying logic of system controls; and • enhanced the implementation of its internal management procedures, especially with respect to the standardization of processes granting clients access to trading on the NEEQ. The compliance and risk control head of the retail customer development department (also the assistant to the general manager) of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.

Non-compliance Incidents

In May 2014, a brokerage customer of Shenwan Hongyuan Securities complained about discretionary trading activities of business personnel at the Dongsihuan Middle Road securities branch that occurred in 2013 and 2014. In 2015, this brokerage customer filed a complaint with the Beijing bureau of the CSRC on the same matter. Meanwhile, on November 18, 2015, the Anding Road securities branch received a call from the Beijing office of the SAC and learnt that a brokerage customer had filed a complaint with the SAC with respect to discretionary trading activities of business personnel at the Anding Road securities branch that occurred on July 15, 2011. By the end of 2015, the two securities branches reported such activities to the Beijing branch of Shenwan Hongyuan Securities and took remedial measures in compliance with relevant regulatory requirements.

On May 20, 2016, the Beijing bureau of the CSRC issued a regulatory decision letter to the Beijing branch of Shenwan Hongyuan Securities. The regulatory decision letter stated that: (i) the Dongsihuan Middle Road securities branch in Beijing failed to report the discretionary trading activities of its business personnel to the CSRC, which were in violation of relevant PRC securities regulations, after it learned of such incidents and took remedial measures, and it performed incomplete client follow-ups; and (ii) the Anding Road securities branch kept insufficient records of customers' information, all of which were in violation of relevant securities rules and regulations. The regulatory decision letter ordered the Beijing branch office of Shenwan Hongyuan Securities to increase the frequency of its internal compliance checks, as the foregoing issues reflected insufficient internal controls.

These non-compliance incidents resulted in the deduction of 0.5 regulatory point to us.

Overview and Primary Remedial Measures

The discretionary trading incidents were the business personnel's personal violations. In response to such incidents, the Beijing branch office has adopted the following remedial measures:

- implemented real-time monitoring of business personnel's securities trading activities over their devices and phones; and
- carried out educational sessions to enhance business personnel's awareness of compliance risk management.

The Dongsihuan Middle Road securities branch terminated the service of the business personnel involved, and the Anding Road securities branch imposed accountability measures on its business personnel, including a reduction in bonuses. In addition, with respect to the issues stated in the decision letter from the Beijing bureau of the CSRC, the Beijing branch office has adopted the following remedial measures:

- formed a team of compliance personnel responsible for internal compliance checks and routine submission to the CSRC of the compliance check reports, as well as supervising securities branches under the umbrella of the Beijing branch on optimizing the internal controls of such securities branches;
- optimized the contents of questionnaires for follow-up interviews with customers, and increased the frequency and extent of follow-up interviews; and
- performed ad hoc internal checks on the document retention of customers' information.

The compliance and risk control head (also the manager of the compliance and risk control department) of the Beijing branch office of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.

Non-compliance Incidents	Overview and Primary Remedial Measures
On July 9, 2016 the Sichuan bureau of the CSRC issued a regulatory decision letter to a securities brokerage agent of the Huaishu Street securities branch in Chengdu. The letter stated that he conducted discretionary trading of stocks for his customer and had a split arrangement of gains from such trading, which was in violation of relevant rules and guidelines. This former securities brokerage agent entered into a discretionary investment agreement with his customer on March 17, 2015. This non-compliance incident resulted in the deduction of 0.25 regulatory point to us. On March 7, 2016, this securities brokerage agent terminated his agency contract with us.	The discretionary trading incident was the securities brokerage agent's personal violation. In response to such incident, the Huaishu Street securities branch has imposed accountability measures on him, including a reduction in performance-based remuneration. Since June 14, 2016, it has also enhanced its internal training with respect to securities brokerage agents' professional conduct. The compliance and risk control head of the Sichuan branch office of Shenwan Hongyuan Securities (also the manager of the compliance and risk control department) is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.
On January 10, 2017, the Shanghai bureau of the CSRC issued a warning letter to Shenwan Hongyuan Securities, which stated that certain of the due diligence reports for a specialized asset management scheme submitted by Shenwan Hongyuan Securities, acting as the manager of the scheme, contained inconsistencies and made conclusions without sufficient proof, which failed to comprehensively reflect the actual repayment capabilities and credit profile of material obligors and accordingly was in violation of the relevant regulations. The warning letter referred to the due diligence reports issued by Shenwan Hongyuan Securities on August 4, 2015. This non-compliance incident has resulted in the deduction of 0.5 regulatory point to us. Shenwan Hongyuan Securities submitted a rectification report on January 18, 2017 to the CSRC. As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification report from the regulators. As of the Latest Practicable Date, this specialized asset management scheme had been duly terminated.	This incident was due to the oversight of the execution team. Shenwan Hongyuan Securities has adopted the following remedial measures since January 13, 2017: ● performed comprehensive self-inspections on the asset-backed securities business, and rectified the issues discovered in such self-inspections in a timely manner; and ● further enhanced its quality control measures over information disclosure and improved its due diligence management relating to the asset-backed securities business. The general manager of the asset management development department of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and the implementation of the remedial measures.
On January 14, 2017, the CSRC issued a regulatory decision letter to Shenwan Hongyuan Securities and ordered rectification. The regulatory decision letter stated that: (i) Shenwan Hongyuan Securities promoted private investment asset management products to the public via its website and certain securities branch of Shenwan Hongyuan Securities promoted private investment asset management products to the public via its WeChat public account, which was in violation of	The incident of Shenwan Hongyuan Securities' promotion of private investment funds to the public via its website was primarily because our interpretation of the relevant rules was different from that of the regulator. In response, since July 18, 2016, it has changed the authorization setting of the relevant part of its website so that only certain qualified clients of ours are able to obtain access. The general manager of the asset management

Non-compliance Incidents

relevant rules and regulations; and (ii) there were deficiencies in its internal controls over employees' trading activities in stocks.

The promotion of private investment funds to the public via Shenwan Hongyuan Securities' website was found noncompliant on July 18, 2016. The Huangxing Road securities branch commenced the promotion of private investment funds to the public via its WeChat public account on March 22, 2016. The deficiencies in the internal controls over employees' trading activities was discovered in an on-site inspection by the CSRC in October and November 2016.

The foregoing non-compliance incidents resulted in the deduction of one regulatory point to us.

Overview and Primary Remedial Measures

development department of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and the implementation of the remedial measures.

The incident of the securities branch's promotion of private investment funds to the public via its WeChat public account was primarily due to the failure of certain staff to comply with the internal policies and regulatory requirements relating to the promotion of private investment asset management products. In response, Shenwan Hongyuan Securities immediately removed the relevant promotional information from that securities branch's WeChat public account. In addition, it has adopted the following remedial measures since November 3, 2016:

- conducted a thorough compliance inspection of each securities branch's WeChat public account and publications; and
- instituted a series of internal measures relating to the management of social media publications, and enhanced the monitoring mechanisms over publications through WeChat public accounts of its securities branches before, during and after the publication to ensure strict compliance with relevant rules.

The compliance and risk control head (also the vice general manager) of the Shanghai branch office of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and the implementation of the remedial measures.

In response to the finding of deficiencies in the internal controls of employees' trading activities in stocks, Shenwan Hongyuan Securities has adopted the following remedial measures:

- enhanced its internal policies regulating employees' professional activities and further clarified their job duties and regulatory requirements; and
- improved the procedures relating to the collection of employees' personal device information, and enhanced the internal technological infrastructure monitoring employees' trading activities.

Non-compliance Incidents	Overview and Primary Remedial Measures
	The head of the compliance and risk management center of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.
On June 28, 2017, the NEEQ issued a regulatory decision letter to Shenwan Hongyuan Securities, which stated that it failed to perform sufficient due diligence on the qualification of the entity issuing the accountant's report submitted for the NEEQ listing recommendation project of I.DEA Energy Technologies Group (譽德集團) ("I.DEA Group") which it led. I.DEA Group listed on the NEEQ on July 30, 2015. In I.DEA Group's NEEQ listing recommendation project, one document in the accountant's report was stamped by a branch of the accounting firm rather than the accounting firm itself, where the branch was not qualified to do so. This non-compliance incident resulted in the deduction of 0.25 regulatory point to us. In July 2017, the document in the accountant's report was updated with the stamp of the accounting firm via a public notice of the issuer.	This incident was due to the accountancy agency's omission and the oversight of our NEEQ team in the I.DEA Group's NEEQ listing recommendation project. In response, Shenwan Hongyuan Securities required the issuer to rectify the issue immediately, including obtaining the correctly stamped accountant's report and updating its public disclosure over the NEEQ. In addition, Shenwan Hongyuan Securities has adopted the following remedial measures since June 28, 2017: ● enhanced its internal scrutiny review procedures with respect to NEEQ application materials; and ● placed a greater focus on its business cooperation with other agencies to work out a reasonable deal timetable to allow sufficient time for diligence review. The compliance and risk control head of the OTC market department (also the assistant to general manager) of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.
On June 30, 2017, the CSRC issued a warning letter to Shenwan Hongyuan Financing Services. The letter stated that it failed to perform sufficient review and checks on the issuer's material contracts with its major customers and the related sales revenue and accounts receivables in the IPO project of Mahayana Media Co., Ltd. (千乘影視股份有限公司) where Shenwan Hongyuan Financing Services acted as a sponsor, which was in violation of relevant due diligence rules. Shenwan Hongyuan Financing Services submitted the IPO application materials of Mahayana Media to the CSRC on April 3, 2013. This non-compliance incident resulted in the deduction of 0.25 regulatory point to us. The CSRC also issued a warning letter to the two sponsor representatives of Shenwan Hongyuan Financing Services in charge of the IPO project.	This incident was due to the failure of some of Shenwan Hongyuan Financing Services' IPO team members to retain proper and complete records of their due diligence work. Shenwan Hongyuan Financing Services has reprimanded the relevant personnel and imposed accountability measures on the business department in the annual performance review. In addition, it has adopted the following remedial measures since July 24, 2017: ● published a series of internal notices and organized training and case studies for employees with respect to the evolving compliance requirements on IPO projects and key issues in the sponsorship and underwriting business; ● instituted internal templates for the filing of IPO listing applications to

Non-compliance Incidents	Overview and Primary Remedial Measures
	standardize business processes and improve execution efficiency; ● emphasized the document retention of due diligence work and stressed the quality control of project execution; and ● established and updated internal guidelines with respect to due diligence work, document retention and quality control of the sponsorship and underwriting business. The head of the quality control department of Shenwan Hongyuan Financing Services is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.
On July 7, 2017, the Shanghai bureau of the CSRC issued a regulatory decision letter to Fengxian securities branch in Shanghai on Shenwan Hongyuan Securities. The letter stated that the commission rate that the Fengxian securities branch imposed on certain customers was, in reality, higher than that suggested in the commission rate plan it had published, which was in violation of relevant PRC regulations. The regulatory decision letter referred to a customer dispute that dated back to November 24, 2015. This non-compliance incident resulted in the deduction of 0.5 regulatory point to us. Shenwan Hongyuan Securities submitted a rectification report on August 11, 2017 to the CSRC. As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification report from the regulators.	This incident was because the employee responsible for setting the commission rates omitted the commission rate of one product, which was traded for a brokerage client. Fengxian securities branch has imposed accountability measures against the relevant personnel in the form of internal warnings and reduction in remuneration. In addition, it has adopted the following remedial measures since July 10, 2017: ● enhanced employee education on relevant requirements under PRC laws and regulations, especially with respect to commission rate management; ● designated personnel to communicate with the brokerage customer with respect to changes to commission rates and duly handle customer disputes; and ● performed comprehensive self-inspections and sampled commission fee arrangements with customers involved in the trading of different types of products for review. The compliance and risk control head of the Shanghai branch office of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and the implementation of the remedial measures.
On August 22, 2017, the NEEQ Company issued a regulatory decision letter to Shenwan Hongyuan Securities, which stated that it failed to perform sufficient due diligence on the signing of a stock	Shenwan Hongyuan Securities was not aware of the signing of the stock subscription agreement before Fang Zhang Gui's NEEQ listing.

Non-compliance Incidents	Overview and Primary Remedial Measures
subscription agreement between Fzg360 Network Co., Ltd (廣東房掌櫃網絡股份有限公司) ("Fang Zhang Gui") and its then existing shareholders in Fang Zhang Gui's NEEQ listing recommendation project which it led. The signing of the stock subscription agreement, which took place during the review period of the application of Fang Zhang Gui's NEEQ listing recommendation, was not disclosed in its application materials. Fang Zhang Gui became listed on the NEEQ on April 21, 2016. This non-compliance incident resulted in the deduction of 0.25 regulatory point to us.	This incident was due to our NEEQ team's insufficient and untimely communications with, and lack of supervision of, the issuer. Shenwan Hongyuan Securities has imposed accountability measures against the relevant personnel. In addition, it has adopted the following remedial measures since August 22, 2017: ● further enhanced employees' compliance and risk management awareness through compliance training and case studies; ● enhanced its internal scrutiny review procedures with respect to NEEQ application materials; and ● instituted internal templates for due diligence materials to standardize business processes, improve quality of work and improve execution efficiency. The compliance and risk control head of the OTC market department (also the assistant to general manager) of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.
On September 4, 2018, the CSRC issued a regulatory decision letter to Shenwan Hongyuan Financing Services. The letter stated that it failed to perform sufficient due diligence on the issuer's purchases and internal controls in the IPO project of Xiamen East Asia Machinery Industrial Co., Ltd. (廈門東亞機械工業股份有限公司) where it acted as a sponsor, which was in violation of relevant due diligence rules. The initial IPO application materials were accepted by the CSRC on December 22, 2016. On September 11, 2018, Shenwan Hongyuan Financing Services accepted a regulatory interview with the CSRC. The CSRC also issued a regulatory decision letter to the two sponsor representatives of Shenwan Hongyuan Financing Services in charge of the IPO project, and imposed a one year suspension on such sponsor representatives that the applications for regulatory approvals from either of them would be refused during such period. This non-compliance incident is expected to result in the deduction of 1.25 regulatory points to us.	This incident was due to the failure of our IPO team to maintain proper and complete records of the due diligence work. Shenwan Hongyuan Financing Services has adopted the following remedial measures since January 29, 2018: ● further improved its internal control systems and the three-tier risk management structure; ● expanded its internal control team and designated personnel with rich experience to perform reviews of IPO projects; and ● reinforced employee education with respect to compliance and risk management awareness through training and case studies. The head of the quality control department of Shenwan Hongyuan Financing Services is responsible for overseeing the enhanced internal controls and implementation of the remedial measures.

Non-compliance Incidents

In the first quarter of 2018, Shenwan Hongyuan Securities conducted a self-inspection, which included inspections on a specialized asset management scheme managed by it and issued by a group of microcredit companies in Jiangxi Province (the "Jiangxi Microcredit project"). Shenwan Hongyuan Securities discovered certain deficiencies in the Jiangxi Microcredit project and took remedial actions accordingly; it also submitted a rectification report to the CSRC on April 27, 2018. In May 2018, the Shanghai bureau of the CSRC conducted an on-site inspection of Shenwan Hongyuan Securities' asset-backed securities business, including the Jiangxi Microcredit project. On October 30, 2018, the Shanghai bureau of the CSRC issued a warning letter to Shenwan Hongyuan Securities in relation to the Jiangxi Microcredit product. The letter stated that: (i) it failed to perform sufficient due diligence, and failed to identify that the stamps on certain guarantee letters were counterfeit and certain due diligence personnel's signatures were missing from certain due diligence reports; (ii) it conducted insufficient management and failed to perform periodic checks on the underlying assets of the asset-backed securities; and (iii) certain projects did not release quarterly management reports as required in violation of relevant due diligence rules and guidelines relating to asset-backed securities. The Jiangxi Microcredit product was launched on August 4, 2015.

This non-compliance incident is expected to result in the deduction of 0.5 regulatory point to us.

As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification report from the regulators.

On November 9, 2018, the Shanghai bureau of the CSRC issued a regulatory letter against a former employee of Shenwan Hongyuan Securities who was principally responsible for executing the Jiangxi Microcredit product. This employee has terminated his employment with Shenwan Hongyuan Securities.

All the investors of this Jiangxi Microcredit product were fully paid at the maturity date.

Overview and Primary Remedial Measures

This incident was due to the personal inappropriate behavior of Shenwan Hongyuan Securities' former employee, and the failure to follow internal policies, especially with respect to the management obligations on asset-backed securities.

Shenwan Hongyuan Securities has adopted the following remedial measures since March 30, 2018:

- updated and enhanced our internal policies and procedures governing its asset-backed securities business;
- strengthened periodic and ad hoc internal inspections of the asset-backed securities business;
- enhanced the implementation of procedures including ongoing disclosure;
- designated a quality control team of experienced professionals with respect to asset-backed securities projects; and
- provided training to its employees to enhance their compliance awareness.

The general manager of the asset management development department of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and the implementation of the remedial measures.

As of the Latest Practicable Date, to our knowledge, this former employee was under investigation by the local police in relation to the Jiangxi Microcredit product. As of the same date, we had not received any formal update on the foregoing investigation.

As of the Latest Practicable Date, there were no investigations, charges or criminal sanctions against us in connection with the Jiangxi Microcredit project. In addition, none of our Directors, Supervisors or senior management were involved in or were the subject of any investigation, charge or sanctions in connection with the Jiangxi Microcredit project.

On December 3, 2018, the SAC issued a decision letter to Shenwan Hongyuan Securities, which stated that it failed to publish a temporary trustee supervisory report and annual trustee report to disclose the lending of its proceeds from the bond offering of Jiayuan

As of the Latest Practicable Date, we were still communicating with the SAC in relation to this incident, and had not received any formal update on this incident from the SAC. Meanwhile, Shenwan Hongyuan Securities has since December 7, 2018

Non-compliance Incidents	Overview and Primary Remedial Measures
Chuangsheng Holding Group Co., Ltd. (佳源創盛控股集團有限公司) to third parties, in accordance with relevant regulations and the trust deed. This was in violation of relevant professional standards for trustees. The letter ordered Shenwan Hongyuan Securities to perform self-checks. This non-compliance incident is expected to result in the deduction of 0.25 regulatory point to us.	implemented more stringent disclosure standards to prevent the recurrence of similar events, which referred to a more prudent approach as to voluntary disclosure, such as disclosure of relevant operational errors in the use of proceeds in our temporary trustee supervisory report and annual trustee report in the future. The general manager of the fixed-income financing department of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and the implementation of the remedial measures.

Our Directors confirm that none of our existing Directors or members of our senior management or directors of Shenwan Hongyuan Securities and Shenwan Hongyuan Financing Services has been involved in any of the regulatory non-compliance incidents disclosed above. Due to the fact that (i) we had implemented measures to rectify the non-compliance incidents immediately upon becoming aware of the incidents as disclosed above and all such incidents had been rectified up to the Latest Practicable Date; (ii) in response to the above non-compliance incidents, we have carefully investigated each incident and implemented a series of remedial measures, supervision mechanisms and policies to strengthen our risk management and internal controls, and our internal control consultant has confirmed that these remedial measures have been taken to rectify our internal control deficiencies; (iii) no objections have been raised and no follow-up actions have been taken by the regulatory authorities in the PRC against the rectification reports or remedial measures, where applicable, taken by us in relation to the regulatory non-compliance incidents disclosed in this document as of the Latest Practicable Date; (iv) the incidents disclosed above resulted from individual acts of our employees that were not authorized; (v) none of the Directors was subject to any warning, penalty, sanction or reprimand by the regulatory authorities in the PRC as a result of the regulatory noncompliance incidents disclosed in this document as of the Latest Practicable Date; (vi) we have received the "(Class A) AA" regulatory rating from the CSRC for eight consecutive years since 2011, the highest rating attained by a PRC securities firm to date (for details of the factors taken into account by the CSRC in assigning regulatory ratings, see "Regulatory Environment"); (vii) our PRC legal advisors confirmed that the regulatory non-compliance incidents disclosed above are not material to our business operations and do not have any material adverse effect on our business, financial condition and results of operations, or the **[REDACTED]**; (viii) no occurrence of any of the non-compliance incidents was due to the failure of any Director to perform his or her duty; and (ix) the qualification of each director of Shenwan Hongyuan Securities and Shenwan Hongyuan Financing Services has been approved by the CSRC, we are of the view that (a) we have adequate and effective internal controls to prevent similar non-compliance from reoccurring in the future; and (b) such incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules. Our internal control consultant performed a long-form review on our internal control system from November 6, 2018 to December 14, 2018, based on a scope agreed with us and the Joint Sponsors, and concluded with a number of findings and recommendations. No material deficiency had been identified based on the results of the review process. Since then, we have taken necessary remedial actions pursuant to the recommendations. In addition, our internal control consultant performed follow-up procedures on our internal control system from December 17, 2018 to January 10, 2019 and confirmed that the remedial measures have been taken to rectify our internal control deficiencies. After making reasonable inquiries of us about these non-compliance incidents and our remedial measures, there is nothing that has caused the Joint Sponsors to disagree with our view.

The aggregate revenue generated from the foregoing non-compliance incidents, where applicable, was insignificant as compared to our total revenue and other income or profit for the year in each of 2016, 2017 and 2018.

Regulatory Inspections

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

During the Track Record Period and up to the Latest Practicable Date, such regulatory authorities that have supervisory oversight over us and/or their relevant local offices and bureaux carried out routine or ad hoc inspections on us, including, without limitation, our business activities, continuing supervisory duties, anti-money laundering system and internal control system. Certain inspections revealed certain deficiencies and weaknesses in our business operations, risk management and internal controls, and we took immediate remedial measures in response to the notifications from the regulatory authorities. For certain other inspections that are ongoing and future inspections that may arise, we will continue to work with the relevant regulatory authorities and take remedial actions as required.

The results of the principal examinations or inspections other than those that have resulted in, or are likely to result in, the deduction of our regulatory points during the Track Record Period and up to the Latest Practicable Date are summarized below.

On-site Inspections of Branches

- On February 22, 2018, the Hohhot branch of the PBOC discovered in the on-site inspection on anti-money laundering of 2017 that our Inner Mongolia branch office did not effectively perform its obligation of client identification according to relevant requirements. Therefore, the Hohhot branch of the PBOC imposed a fine of RMB200,000 on us. Our Inner Mongolia branch office has fully paid the fine, taken rectification measures since November 15, 2017 in accordance with the requirements, and effectively enhanced our client identification mechanism. We have also urged all business departments and branches to effectively carry out anti-money laundering work such as client identification to prevent incidents in breach of laws and regulations. The compliance and risk control head (also the manager of the compliance and risk control department) of the Beijing branch office of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures. Shenwan Hongyuan Securities submitted a rectification report on November 15, 2017 to the PBOC. As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification report from the regulators.
- During June 25 to July 25, 2018, the operation management department of the PBOC Chongqing branch discovered in the on-site inspection on anti-money laundering that our Chongqing branch office did not report suspicious transactions according to relevant requirements or perform effectively its obligation of client identification according to relevant requirements. Therefore, the operation management department of the PBOC Chongqing branch imposed a fine of RMB230,000 on us. Our Chongqing branch office

has fully paid the fine, taken rectification measures since August 6, 2018 in accordance with the requirements, and enhanced our internal controls over anti-money laundering. We have also enhanced training on client identification to prevent similar incidents in violation of laws and regulations. The compliance and risk control head (also the manager of the compliance and risk control department) of the Chongqing branch office of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures. Shenwan Hongyuan Securities submitted a rectification report on August 30, 2018 to the PBOC. As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification report from the regulators.

- During August 27 to September 21, 2018, the Wuhan branch of the PBOC discovered in the on-site inspection on anti-money laundering that our Hubei branch office did not perform effectively its obligation of client identification or report suspicious transactions according to relevant requirements. The Wuhan branch of the PBOC proposed a fine of RMB150,000 to be imposed on us. Our Hubei branch office has taken rectification measures since October 23, 2018 in accordance with the requirements and enhanced our internal controls over anti-money laundering and our client identification mechanism. The compliance and risk control head (also the manager of the compliance and risk control department) of Hubei branch office of Shenwan Hongyuan Securities is responsible for overseeing the enhanced internal controls and implementation of the remedial measures. Shenwan Hongyuan Securities submitted rectification reports on November 3, November 14, December 3 and December 24, 2018 and February 28, 2019 to the PBOC. As of the Latest Practicable Date, we had not received any objections or follow-up comments on the rectification reports from the regulators, and the proposed fine is still subject to confirmation by the Wuhan branch of the PBOC.

As of the Latest Practicable Date, we had duly paid all fines that had been officially imposed on us related to the foregoing on-site inspections.

Ongoing Supervision

The CSRC and its local offices and bureaux conducted on-site verifications of several companies under our post-listing supervision, and identified certain issues associated with our continuing supervisory duties, such as insufficient communication with the issuers.

In response to the weaknesses identified by the regulatory authority, we took remedial measures including increasing our attention to communication with the issuers, as well as our frequency of internal reviews, and enhancing our policies, professional teams and internal control mechanism.

Our Directors confirm that, except as disclosed above, there were no other material regulatory examination findings or material incidents of regulatory non-compliance during the Track Record Period and up to the Latest Practicable Date.

OVERVIEW

We attach great importance to our risk management. We have established an internal control mechanism and a comprehensive risk management system involving all staff in all aspects throughout our entire business process, which strengthens our business development as well as compliance with regulatory requirements. Our risk management supports the healthy and stable development of our business. Our regulatory ratings have remained "(Class A) AA" for eight consecutive years from 2011 to 2018 (granted in the middle of each calendar year).

Under the principle that our risks should be measurable, controllable and affordable, our target of risk management is to maximize our risk-adjusted return. We seek a balance between risks and returns in our operation, and achieve profits through taking certain risks as appropriate and actively managing those risks. We have formulated risk management policies to identify and assess the risks we face. We have also set up appropriate risk tolerance levels and designed corresponding risk control measures to ensure our ability to address all kinds of risk effectively. We regularly review these risk management policies and systems and adapt them in response to changes in market conditions and our operations.

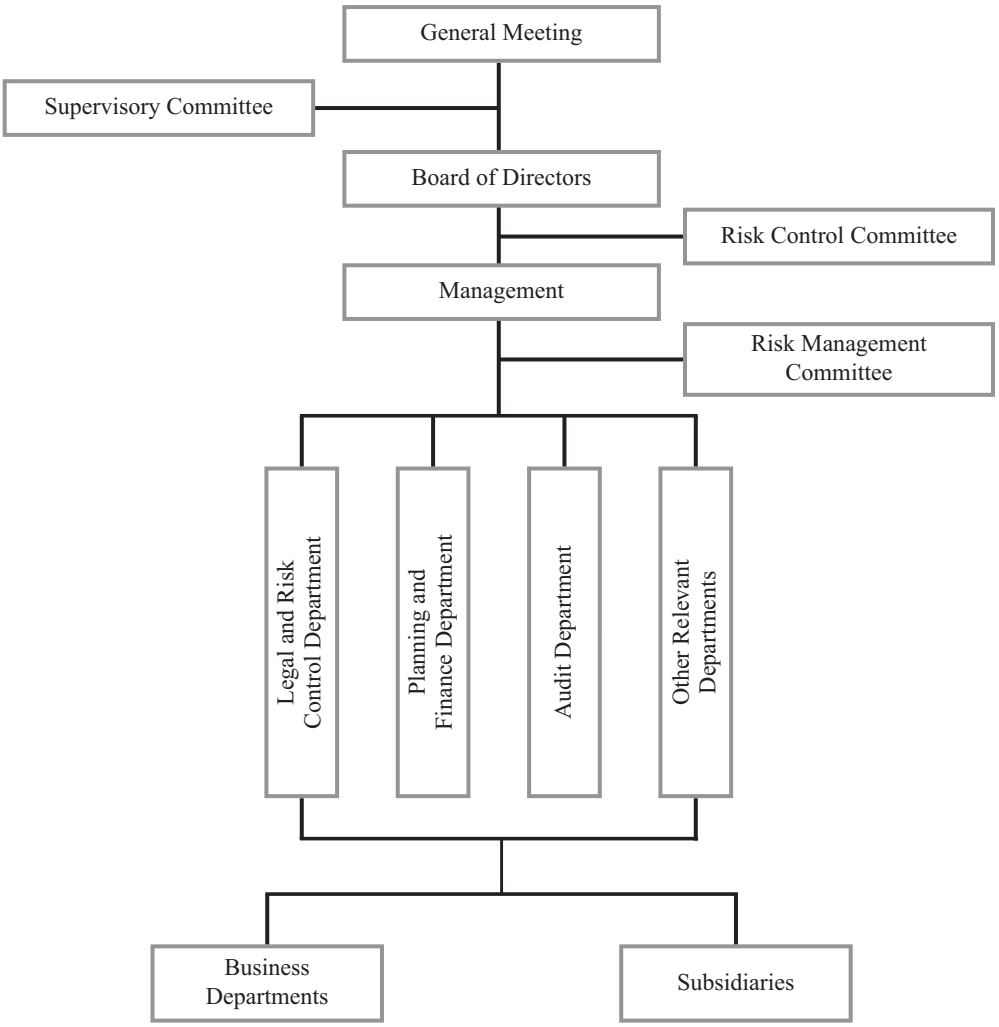
We believe that our emphasis on risk management is embedded in our culture and has protected us from market adversities, as well as setting a strong foundation for our long-term business growth.

OUR RISK MANAGEMENT FRAMEWORK

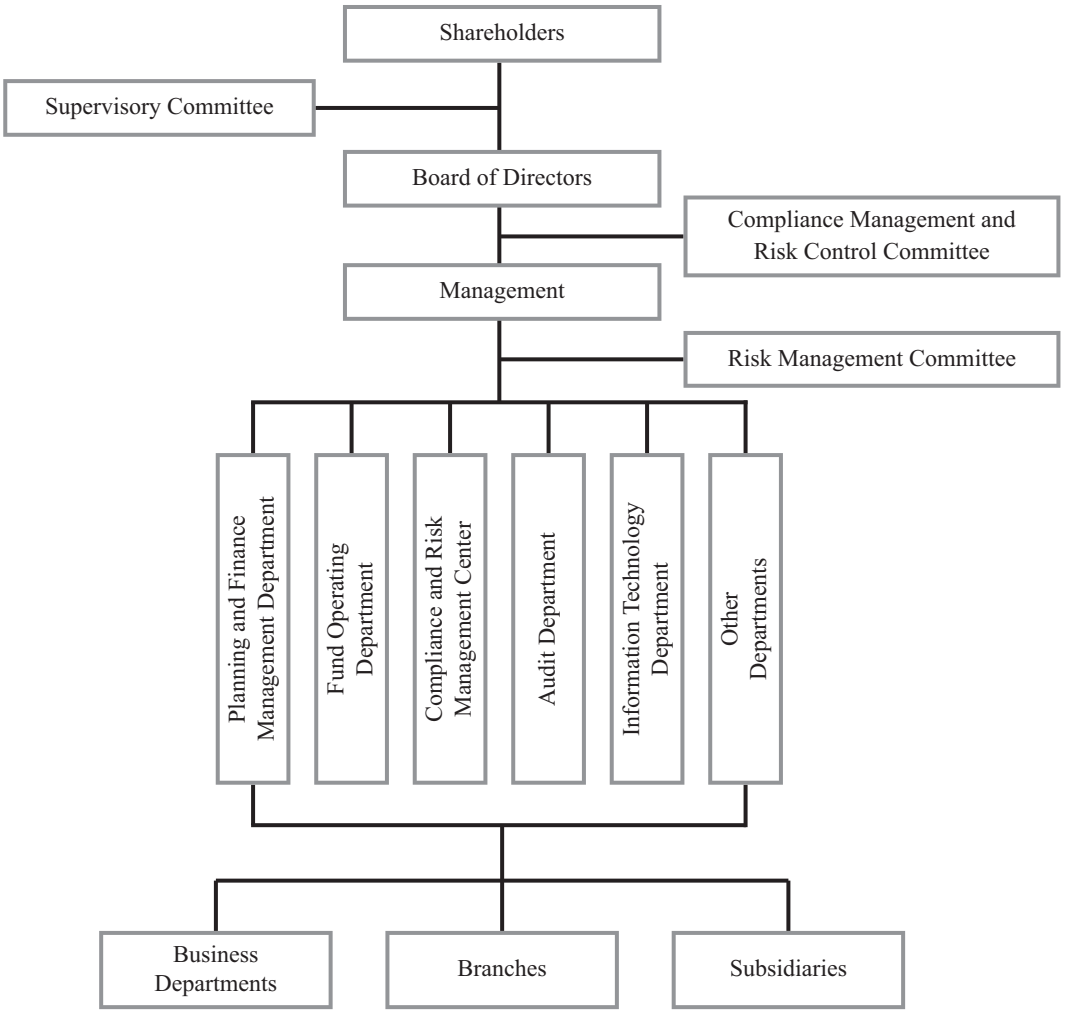
We have established risk management structures covering both our company and Shenwan Hongyuan Securities, comprising the Board of Directors, Board of Supervisors, management, the risk management department and other business departments. Each level takes its own responsibility and cooperates with others to comprehensively manage our risks.

The charts below set forth the risk management organization structure of our Company and Shenwan Hongyuan Securities.

Our Company



Shenwan Hongyuan Securities



Our Company has established a series of treasury management policies to uniformly manage and reasonably allocate our funds. Our Company allocates funds for the various departments within the risk tolerance scope according to strategy plans and annual operation plans, comprehensively considering factors such as the nature of our investment businesses and the investment returns. The Planning and Finance Department is responsible for the management, control and review of funds. Our Company has established a management organization structure including the Board of Directors, Management, functional departments such as strategy management, planning and finance, and legal and risk control, as well as business departments. Our Company pays attention to risk prevention, controls loopholes through the establishment and improvement of an internal control mechanism, and manages funds through an authorization and multitier approval system.

Shenwan Hongyuan Securities has established a sophisticated treasury management organization structure consisting of the Board of Directors, management, and the fund management department and business departments. Shenwan Hongyuan Securities has formulated comprehensive treasury management policies aiming at improving treasury management, safeguarding funds as well as increasing fund utilization and controlling relevant risks. Shenwan Hongyuan Securities sets annual budget plans and interim asset allocation plans, and arranges funds for the various business lines after assessing the development of such businesses and their risk tolerance capabilities. Shenwan Hongyuan

Securities continually improves its liquidity reserve system, pays attention to the match and balance between assets and liabilities in terms of scale, period and structure, maintains the variety of financing channels, and replenishes liquidity in accordance with operational needs. It also pays attention to the prevention of liquidity risk and has established, and is improving, its treasury management and control system. It has maintained liquidity risk indicators that meet regulatory requirements and has strengthened its liquidity risk management capabilities through various methods including stress tests.

The Risk Control Committee of the Board of Directors of our Company consists of Mr. Chen Jianmin (陳建民), Ms. Huang Danhan (黃丹涵), and Mr. Wang Honggang (王洪剛), with Mr. Chen Jianmin as the chairman. For details of the qualification and experience of the members, see "Directors, Supervisors and Senior Management—Directors."

The Board of Directors of Shenwan Hongyuan Securities has established a compliance management and risk control committee consisting of Mr. Chen Jianmin and Mr. Feng Rong (馮戎) with Mr. Chen Jianmin as the chairman. Mr. Feng Rong is the vice chairman and executive director of the board of directors of Shenwan Hongyuan Securities. He served as the deputy division chief in the Department of Public Offering Supervision of the CSRC, chief of the comprehensive division of the Department of Public Offering Supervision of the CSRC, member of the planning and development committee (entitled to act as a deputy bureau level) and researcher of the research center of the CSRC. Mr. Feng Rong has more than 20 years' regulatory and management experience in securities business.

As we mainly carry out our businesses through Shenwan Hongyuan Securities, we set out below the risk management structure of Shenwan Hongyuan Securities. Our Company and its other substantial subsidiaries have also established corresponding risk management structures based on their own operations and business activities.

Board of Directors

The Board of Directors takes ultimate responsibility for the overall risk management and performs the following risk management duties: (i) to approve material aspects of our risk management mechanism such as the fundamental system of risk management, risk preference, and risk policies; (ii) to review the annual risk assessment report, make risk control decisions, and approve major risk management solutions; (iii) to approve the tolerance level of risks and limits of material risks; (iv) to decide on the configuration and responsibilities of our risk management department; (v) to appoint and assess the chief risk officer and determine the remuneration package thereof; (vi) to establish the mechanism for direct communication with the chief risk officer; (vii) to continuously pay attention to all types of risks, and supervise and inspect risk management implementations according to regulatory requirements; and (viii) to enhance risk management awareness.

Pursuant to our Articles of Association, we have set up a specialized committee for the Board of Directors to fulfill its compliance and risk management responsibilities. The committee, which is responsible to and reports to the Board of Directors, performs the following duties: (i) to review and advise on the general goals and policies of the compliance and risk management; (ii) to review and advise on the department configuration and duties of compliance and risk management; (iii) to assess and advise on the risks arising from major decisions and relevant solutions to material risks; (iv) to appraise the overall performance of compliance and risk management; and (v) to review and advise on compliance and risk assessment reports which are subject to approval from the Board of Directors.

Board of Supervisors

The Board of Supervisors supervises the performance of the Board of Directors and the management on risk management, and reviews rectifications and improvements made.

Management

The management assumes the major responsibility for our risk management. Specifically, management is responsible for the following risk management duties: (i) to facilitate the implementation of the basic risk management system, risk policies and risk preferences decided by the Board of Directors and implement the risk management resolutions of the Board of Directors; (ii) to organize and formulate relevant supporting systems for risk management, according to the basic system of our risk management; (iii) to establish execution plans regarding risk preferences, risk tolerance and limits of material risks, and ensure the effective implementation of such plans, as well as to review the implementation progress; (iv) to establish a healthy structure for our comprehensive risk management and specify respective duties among the risk management department, business departments and other departments to enable checks and balances, and coordination, among departments; (v) to periodically assess our overall risk and our management of major risks, resolve problems found in risk management and report to the Board of Directors; (vi) to establish a performance review system that assesses the risk management performance of all staff; (vii) to implement requirements of the Board of Directors on the construction of a corporate risk management culture; and (viii) to establish a complete IT system and data quality control mechanism.

We have also established a professional risk management committee under the management level to perform the following duties: (i) to formulate risk strategies, risk management infrastructure and risk policies; (ii) to formulate plans for the construction of a comprehensive risk management system; (iii) to develop risk policies, risk tolerance and key risk control indicators within its delegated authority; (iv) hear the reports on risk management from other departments and advise; (v) to analyze business operations involving major risks, and formulate risk-handling measures; (vi) to coordinate and resolve material disputes involving risk management among relevant departments; (vii) to research and advise on the construction of the risk management culture, organization, talent and information system; and (viii) to formulate the management plan of risk capital and decide on the assessment of risk management performance.

The risk management committee under the management of Shenwan Hongyuan Securities consists of the management and the heads of the risk management, audit, operations, information technology, finance, and fund management departments, and other relevant departments. The risk management department of Shenwan Hongyuan Securities consists of members with experience in various professions such as securities, finance, accounting and information technology. More than 90% of its members have more than three years of such experience.

Our management level includes our chief risk officer and chief compliance officer. Our chief risk officer is responsible for overall risk management, questioning and investigating potential risks in our risk management and raising rectification proposals. As of the Latest Practicable Date, our chief risk officer was Mr. Fang Rongyi (方榮義), who has management experience in accounting and finance, as well as regulation in regulatory authorities. Mr. Fang Rongyi served as the deputy division director of accounting division and the division director of non-bank financial institutions regulatory division of PBOC Shenzhen Central Sub-branch, and the division director of accounting division and state-owned banks regulatory division of China Banking Regulatory Commission Shenzhen Office.

Our chief compliance officer is responsible for reviewing, supervising, and inspecting the compliance work of ours and our staff' in operations and practices. As of the Latest Practicable Date, our chief compliance officer was Ms. Ren Quansheng (任全勝), who has more than ten years' legal and compliance management experience. We provide sufficient protection to the chief risk officer and chief compliance officer for them to perform their duties and ensure their rights of knowledge and independence necessary for the performance of duties. The chief risk officer and chief compliance officer are entitled to participate in or attend meetings relevant to their performance of duties and access relevant documents and information.

We have also established a risk management committee under the management of our Company, consisting of the senior management and heads of the legal and risk control department, strategy management, planning and finance, and audit departments. Its members have many years of management experience in legal and compliance, audit, finance and funds management with backgrounds in law, accounting, business finance and statistics, as well as more than ten years' experience in securities business. While the Risk Control Committee is mainly responsible for reviewing and evaluating strategies and policies relating to our risk management, our risk management committee is mainly responsible for the implementation of such strategies and policies.

Risk Management Department and other Management Departments

We have established specialized departments to perform risk management and legal compliance management duties. We have also ensured sufficient authorization, independence, resource provision and reporting channels for such departments to perform their duties.

Our risk management department performs its risk management duties, and assists the chief risk officer with promoting comprehensive risk management. It is responsible for monitoring, evaluating and reporting on our overall risk level and providing risk management advice on business decisions. The risk management department also takes charge of organizing and coordinating risk management work, directing and supervising risk management within various departments, branches and subsidiaries.

Our legal and compliance department performs legal compliance management duties, assisting the chief compliance officer with conducting legal compliance work, including legal compliance reviews, compliance monitoring, compliance inspection, compliance advocacy and training, anti-money laundering, conflicts of interests, litigation and arbitration, and the prevention of legal and compliance risks.

Our audit department is responsible for supervising and inspecting the implementation of the risk management system in various departments and branches. For the issues identified during inspections, the audit department will request the inspected department to rectify and reinspect the results of rectification measures. The audit department will report to the management and the Board of Directors in a timely manner, as well as following up the rectification measures.

Other supervision, administration, finance, capital management, operation, custody, information technology, human resources, and strategic planning departments are responsible for fulfilling their corresponding risk management responsibilities within the scope of their duties.

Business Departments, Branches and Subsidiaries

In our risk management mechanism, responsibilities are also taken directly by each business segment to identify, assess, measure, monitor, control, and report risks. Each business segment, such as investment banking, principal investment, personal finance, institutional services and trading, and investment management, directly assumes responsibilities for the risks arising in their business operations. Business departments, branches and subsidiaries all assume direct responsibilities of risk management and are respectively responsible for managing risks in their business areas, formulating and implementing policies and measures for risk management. The head of each business department, branch and subsidiary is the person in charge of fully understanding and appreciating the various risks, and to identify, assess, address and report risks encountered in a timely manner within the decision-making process.

OUR MAJOR RISK MANAGEMENT MEASURES

Market Risk Management

Market risk refers to the risk resulting from the adverse effects on our revenue or the value of financial instruments held by us due to market price changes of the equity securities, fixed-income securities and various derivative financial instruments we hold. We also face foreign exchange rate risk in currencies such as the Renminbi, US dollar and HK dollar. Market risk management aims to control the market risk within an acceptable range so as to maximize risk-adjusted returns. We conduct dynamic monitoring and grade warnings of risk indicators to ensure relevant countermeasures can be undertaken in a timely manner. We also conduct stress tests regularly to measure changes of various risk control indicators and operating indicators under different stress situations.

Market risk exposure mainly affects businesses such as proprietary trading. We manage our market risk at various levels. The Board of Directors is responsible for formulating the risk preference and risk tolerance for our investments. Management is responsible for formulating specific implementation plans for risk tolerance. Our business departments are responsible for executing such plans. Our risk management department conducts comprehensive risk identification, assessment and monitoring of our overall market risk.

There is a high degree of uncertainty in the securities market, which brings greater challenges to our market risk management. To effectively manage market risks, we have established a market risk management system. The risk management personnel of each business department and the risk management department independently monitor, analyze and report on the relevant risks through the business system and the risk management system. In particular, based on the nature, scale, complexity and operation of each of our business segments, we use risk measurement models, methods and systems to assess qualitatively and quantitatively the risk each business segment faces. Based on our risk preference, we have set various risk indicators under our market risk management system, such as business scale, concentration, sensitivity, and value at risk, to monitor relevant risks. When such indicators are met, we will timely take measures to control corresponding market risk. Generally, we have taken the following measures to deal with market risks:

- we have formulated a clear corporate structure for executing our risk preference and risk tolerance policies and strictly followed such risk tolerance requirements;
- we have established a quantitative risk indicator evaluation system, including risk measurement indicators such as value at risk, beta, volatility, basis point value, duration

and investment concentration, and also carried out evaluations through stress tests and sensitivity analysis;

- we have conducted dynamic monitoring and grade warnings of risk control indicators, and taken relevant countermeasures in a timely manner;
- we have used stock index futures, commodity futures, interest rate swaps, options and other derivative financial instruments to hedge our positions if necessary; and
- before making major investments, we have strictly carried out feasibility analyses and our risk management department has issued risk assessment reports.

Apart from our proprietary trading business, our investment banking, margin financing and securities lending, and investment management businesses are also exposed to market risk. With respect to investment banking business, we face the risk of price fluctuation of the stocks or bonds we hold for hard-underwriting. We fully evaluate the risks relating to hard-underwriting before project implementation, conduct daily marked-to-market valuations and monitor the market fluctuation of the stocks or bonds we hold for hard-underwriting, and dispose of such stocks and bonds in a timely manner. With respect to margin financing and securities lending business, we face the risk of losses from the securities lent due to market price fluctuation. We strictly control the scale of securities we lend, conduct daily marked-to-market valuations of the risk control indicators, and calculate the risk exposures. With respect to our investment management business, we face the risk of losses from the products our asset management schemes invest in due to market price and interest rate changes, especially those we made investment in. We conduct real-time monitoring on the investment condition and evaluate and assess market risk through risk control indicators or models. We have maintained effective control of market risks through enforcement of the above measures.

Credit Risk Management

Credit risk refers to the risk that we may face when our financiers, counterparties or bond issuers fail to perform the agreed financial obligations. Our credit risk exposures mainly exist in our personal finance, proprietary trading, and principal investment businesses.

Through rigorous credit assessment and risk monitoring, we are able to timely detect, report, and manage credit risk. We have mainly adopted the following measures:

- we have established an internal rating system for credit risk, and conducted concentration risk management of our clients;
- we have further optimized risk assessment and analysis of our clients and collateral, and reinforced continuous supervision. We have also been improving our credit risk management system, and set up company-level negative lists of counterparties so as to collect and manage the list of those clients with bad credit, and unified the management of negative information on our clients;
- we have strictly set up strict entry criteria, such as bond and issuer ratings for our proprietary trading business, and carried out pre-transaction reviews, post-transaction monitoring, and follow up on trading behaviors, credit ratings and types of securities, as well as scale and concentration of bonds;
- we have enhanced our measures and policies of derivatives tradings, set up rating and entry criteria for our counterparties, and improved our risk limit indicators system and pre-transaction review standard; and

- we have tightened the review and management of certain businesses, such as stock-backed lending and principal investment business, on the assessment of our client, concentration control, and scale of the businesses, and closely monitor project status on a continual basis.

Liquidity Risk Management

Liquidity risk is the risk that we may face if we fail to acquire sufficient funds in time with reasonable cost to repay our debts due, perform other payment obligations and satisfy capital requirements in normal business operations.

In managing our liquidity risks, we consider our short, medium and long-term funding needs and liquidity management requirements, and reinforce the management of both the total amount and the structure of high-quality liquid assets through continually improving the management system of our liquidity reserve, so as to maintain a sufficient liquidity reserve. We maintain sufficient current assets, mainly bank deposits and treasury bonds, in order to meet various operational and management requirements including operation and investment needs, payment for bonds, liquidity levels and long-term liabilities required by the liquidity coverage ratio and net stable funding ratio. We maintain adequate cash and cash equivalents and continuously monitor and compare cash flow forecast and actual cash flows. We have also adopted a risk indicator analysis method to manage our overall liquidity risk. Through the analysis of key risk indicators, such as liquidity coverage ratio, net stable funding ratio, liquidity gap, and asset and liability concentration, we assess and measure our overall liquidity risk status. Our funds are under a unified and centralized management which facilitates our reallocation of surplus funds and enables us to use funds efficiently while maintaining liquidity. Our liquidity reserve continually meets the investment needs of our various businesses and supports our businesses according to our annual operation target and asset allocation requirements through our internal fund management system. By taking into consideration the macro market environment and large-scale asset liquidity, we have effectively prevented the occurrence of liquidity risk by diversifying financing channels, optimizing the structure of asset liability duration and conducting emergency drills for liquidity risk. During the Track Record Period, our liquidity monitoring indicators, namely the liquidity coverage ratio and net stable funding ratio were in compliance with regulatory requirements.

For liquidity risk, we have primarily adopted the following measures:

- we have formulated a comprehensive capital plan to maintain a sufficient liquidity reserve;
- we have actively expanded the scope of cooperation of financial institutions, improved debt financing management capabilities and diversified liquidity management tools;
- we have enhanced the dynamic monitoring of liquidity risk, maintained the tracking and assessment of information such as liquidity monitoring indicators, cash flow gap, liquidity reserve and our short-term financing capabilities;
- we have carried out stress testing of liquidity risk, improved the ability to measure liquidity shock and put forward effective measures; and
- we have improved the capability of reporting and dealing with liquidity risk contingencies through conducting emergency drills for liquidity risk to enhance the ability to respond to liquidity crisis.

Operational Risk Management

Operational risk is the risk arising primarily from inadequate internal controls, human errors, IT infrastructure failures, or external events, and is distributed among our various business processes and operations. Our senior management oversees the overall management of operational risk of each of the business departments that they are responsible for. During the Track Record Period, we encountered some operational risk situations due to external events, personnel errors and system defects. Some incidents caused client complaints and claims. None of the incidents occurring during the Track Record Period was material. After the occurrence of these risk events, we have actively taken countermeasures to resolve the risks and to ensure the normal operation of our businesses. Through optimizing business processes, fixing system defects, conducting business training, and strengthening reviews, we have improved our management of operational risk.

The primary objective of our operational risk management is to effectively identify, assess, monitor, control and mitigate operational risk, as well as minimize potential losses resulting from operational risk. In order to minimize our exposure to operational risk, each of our business segments has formulated a set of business procedures for their respective operations to prevent losses from operational errors and maintain our reputation. Our audit department conducts regular audits to identify any weakness in our operating processes, and provides advice and recommendations.

With the further integration of our business processes and core trading systems, the promulgation of new regulatory policies, and the complexity of business models, our operational risk management will face further challenges. In this regard, we have primarily taken the following measures:

- we have continuously improved the multitier defenses including business control, risk monitor and internal audit, and continuously strengthened the ability of each defense in risk management;
- we have further improved the construction of the internal control system, carried out risk identification and assessment, and continue to promote the rectifications of internal control defects and shortfalls;
- we have improved the operational risk and key risk indicator management mechanism and continually improve the operational risk management level;
- through in-depth analysis of the reasons for risk events, we have formulated effective rectification plans to avoid the recurrence of operational risk events;
- we have strengthened the training of our staff in key businesses and positions, carried out studies and reviews of typical cases, and constantly improved the emergency response mechanism; and
- we have strengthened the assessment and prevention of risks arising from information system upgrading and integration and taken effective preventive measures to avoid operational risk events caused by system failures.

Legal and Compliance Risk Management

We may be subject to legal risks, including the risk of incurring legal liability arising from breaches of contract, infringements of legal rights of other persons or otherwise in connection with our business activities. We have established procedures that require relevant important agreements to be

reviewed by our legal and compliance department. Our legal and compliance department keeps track of the latest changes in laws and regulations. With respect to our business operations, our legal and compliance department regularly provides internal legal advice to our management to facilitate their decision-making. Our legal and compliance department also takes the lead in managing any legal disputes, arbitrations or litigations.

At the same time, we also face compliance risk. Compliance risk is the risk of being pursued for legal liability, regulatory measures, disciplinary sanctions, or financial or reputation loss due to violations of laws, regulations, and norms. Our business operations are mainly subject to the laws and regulations of China. These laws, regulations, and regulatory practices evolve and change from time to time. If we fail to operate our business within the legal and regulatory parameters or otherwise fail to promptly and appropriately respond to regulatory changes, our business development may be impeded.

Supervision of the financial industry is strict. In order to reduce our legal and compliance risks, we actively pay attention to regulatory trends, conscientiously comply with new regulatory regulations, improve the legal and compliance management system, and strengthen the legal and compliance teams as well as our culture. Meanwhile, we actively strengthen the legal and compliance review of all aspects of our business operations, and diligently carry out legal and compliance work, such as compliance consulting, compliance monitoring, compliance inspection, compliance promotion and training, anti-money laundering, conflicts of interests, litigation and arbitration, etc., to ensure our businesses are conducted legally and compliantly. During the Track Record Period, other than a few improper instances of behaviors of us or some branch offices or subsidiaries which were regulated by regulatory authorities and penalties imposed on several of our employees, our legal and compliance risks were in general controllable. See "Business—Laws and Regulations—Regulatory Non-compliance."

With the continual introduction of regulatory policies and the changing market environment, legal and compliance management will face greater challenges. In response to the current regulatory situation and market environment, combined with our business characteristics, we have taken a series of measures, including but not limited to strengthening our legal and compliance team, strictly complying with new regulatory rules, further strengthening our risk investigation in various businesses, as well as improving the management of employee behaviors and practices.

Dynamic Risk Control Indicators Monitoring and Complement Mechanism

Our risk management department has developed and established our own risk management system which is independent of other business departments based on the requirements of the Administrative Measures for Risk Control Indicators of Securities Companies issued by the CSRC. Such system is able to dynamically supervise risk control indicators with net capital and liquidity as key indicators, together with other business risk control indicators. Each department, branch and subsidiary identifies, assesses and monitors the indicators applicable to their respective business. Our risk management department conducts an independent review through the risk management system, issues a warning against situations violating the alert level, and urges the relevant department to respond to the risk. For innovative businesses which continually issue new products, we timely diversify and improve the functions of the risk management system, combining in-house development with advanced experience of other professional risk management system providers available on the market.

Meanwhile, we have established a net capital replenishment mechanism. When risk control indicators trigger the alert level, we then replenish net capital by reducing the type and scale of proprietary investment products with high risks, adjusting business operation plans, issuing subordinated debts, raising funds, and similar measures.

The following table sets forth the major risk control indicators relating to net capital:

Risk Control Indicators	Our Alert Level	Regulatory Requirements
Net Capital	–	No less than RMB200.0 million[(1)]
Risk coverage ratio	No lower than 140%	No lower than 100%
Capital leverage ratio	No lower than 11.2%	No lower than 8%
Net Capital/Net assets	No lower than 28%	No lower than 20%
Net Capital/Liabilities	No lower than 11.2%	No lower than 8%
Equity securities and their derivatives of equity sales and trading business/Net Capital	No higher than 60%	No higher than 100%
Non-equity securities and their derivatives of equity sales and trading business/Net Capital	No higher than 300%	No higher than 500%
Cost-to-Net Capital ratio for holding a single equity security	No higher than 18%	No higher than 30%
Margin loans and securities lent/Net Capital	No higher than 240%	No higher than 400%

(1) In the case of Shenwan Hongyuan Securities.

In addition, we have also established a stress test mechanism for risk control indicators. According to the relevant requirements of the Guidelines on Securities Companies' Stress Tests issued by the SAC, we conduct annually a comprehensive stress test based on market environment changes and business development. When making cash dividend distributions, equity investments and carrying out our various major businesses, we also perform stress tests, measure our general risk tolerance and formulate measures to ensure a healthy, sustainable and stable development.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES IN OUR MAJOR BUSINESS LINES

We have implemented a series of risk management and internal control measures to manage the risks associated with our business activities.

Enterprise Finance Business

Investment Banking

We primarily manage risks associated with our investment banking business through the following procedures:

- we have established and implemented a series of polices and measures, according to the guidance on the internal control of investment banking business issued by the CSRC, on all procedures of our investment banking business such as due diligence, project review, continuous supervision, as well as the respective responsibilities of our quality control department and internal review team;
- the project team carries out due diligence before project inception and during implementation which is vital to our investment banking business, according with regulatory requirements and business guidelines, including the collection of legal,

financial, business information and materials relating to transactions or clients, and interview our client's management, customers and suppliers. We have established strict requirements on key business procedures for our investment banking business;

- we have established a comprehensive project review and approval mechanism including project inception, quality control and internal review procedures;
- we implement a project after our quality control review of the application materials based on due diligence and our specialized committee's approval;
- our quality control department carries out inquiries on and reviews of risks and issues identified during project execution and on-site verification of certain projects following regulatory and our internal requirements;
- our internal review department takes responsibility for conducting independent research and issuing opinions on the risks of investment banking projects. Our internal review committee is responsible for the approval of all applications to be made to regulatory authorities or the disclosure of its opinion on our projects;
- our project team and business department are responsible for the submission, filing, and disclosure of the documents and materials of our investment banking projects, as well as continuing follow-up and due diligence, and complying with relevant regulatory requirements under the guidance and assurance of our quality control department, as approved by our internal review committee independently;
- designated team performs our continuous supervision duties, such as monitoring the use of proceeds, notifying the issuer for prompt information disclosure and compliance with regulatory requirements. It will also be responsible for executing our internal controls and supervision, while our quality control department is responsible for the management, supervision, guidance, as well as communicating with regulatory authorities; and
- we have formulated risk assessment and risk management guidelines regarding hard-underwriting, to handle risks relating to the hard-underwriting of stocks and bonds when carrying out underwriting business. Before a project's inception, our business department reviews our risks relating to hard underwriting, and sets up plans for projects with hard-underwriting risks as well as follow-up and alert mechanisms. Our risk management department conducts stress tests according to the alerts on funds for hard-underwriting. Before filing, we submit dedicated reports regarding hard-underwriting, and our specialized committees take responsibility for decision-making.

The management overseeing our internal review committee, specialized committees and our designated team and performing continuous supervision duties of our investment banking business of Shenwan Hongyuan Financing Services mainly include Mr. Zhang Jian (張劍), Ms. Li Yan (李艷), and other vice general managers of Shenwan Hongyuan Financing Services. Mr. Zhang Jian serves as the assistant to the general manager of Shenwan Hongyuan Securities and the general manager of Shenwan Hongyuan Financing Services, and has more than 18 years' experience of investment banking business. Ms. Li Yan is the chief risk officer and the chief compliance officer of Shenwan Hongyuan Financing Services, and has more than 18 years' experience of legal and compliance and the investment banking business. The other vice general managers of Shenwan Hongyuan Financing Services have, on average, more than 20 years' experience relating to investment banking and securities businesses. The management overseeing our bonds underwriting business is Mr. Xue Jun (薛軍). Mr. Xue Jun serves as the assistant to the general manager of Shenwan Hongyuan Securities, and

the executive director of Shenwan Hongyuan Financing Services, with more than 20 years' experience relating to the securities business.

Principal Investment

We have formulated risk management regulations and procedures with regard to our principal investment business, and categorized risk types and standards covering processes including project entry, due diligence, risk evaluation and examination, investment decision-making, investment execution, post-investment management and exit.

We have established a multitier risk management organization system that comprises the Board of Directors, the management and its specialized committees, risk management departments and investment business departments, forming independent and balanced risk management processes and specifying management responsibilities throughout the procedure. We have strictly executed our risk management regulations and procedures and monitored the implementation of risk management measures.

In respect of debt investment, the major risk management measures are as follows:

- we have restrictive requirements on the investment target, the trading structure, the trading counterparty's creditworthiness, the ultimate borrower's use of proceeds and the quality of the collateral;
- we have guidance requirements on the ultimate borrower's or the guarantor's credit ratings, the different collateral's loan-to-value ratio, and other third-party supports;
- we have differentiated and made specific requirements with regard to investment in different industries;
- we have concentration limits on the same ultimate borrower, same industry and same geographic area;
- we have maintained a whitelist of target companies to enhance our investment quality; and
- we have requirements on collateral evaluation agencies and rating agencies to obtain objective and reliable third-party evaluation results.

In respect of equity investment, the major risk management measures are as follows:

- we evaluate the investee's industry, future perspective, growth and innovation capabilities for entry evaluation;
- we conduct due diligence on the investee and its actual controller's credit condition, operating ability, share capital, history and development, management team and personnel, industry and market, competition and development strategies, financial condition and legal compliance conditions; and
- we have specific requirements with regard to the procedures, formalities, investigation methods and file management.

We also have specific requirements with regard to post-investment risk management. We continuously monitor the progress of the projects and routinely categorize the projects we invest in. We alert and report potential risks and take timely and effective measures to manage detected risks.

Personal Finance Business

Securities Brokerage

To manage the risks associated with our securities brokerage business, we have mainly taken the following measures:

- we have adopted an investigation and monitoring mechanism to examine client identification and require our employees to verify suspicious client identities through phone calls or physical visits;
- to enhance our clients' risk perception and their risk management capabilities, we provide client education materials at our branch offices, website, mobile apps, and WeChat public account, and at our investors education centers, and update such materials on a regular basis;
- we have implemented a third-party custody system for client transaction settlement funds, to deposit client funds at qualified custody banks. We also provide centralized settlement and clearing services to our clients, and verify the funds and securities of our clients when trading through our system;
- we have adopted monitoring systems for our securities brokerage business to detect unusual trading activity in a timely manner. We also take action in response to unusual trading activity, as well as manage such activities according to our guidelines and policies;
- we conduct client reviews according to regulatory requirements and promptly respond to client complaints. We maintain several channels to respond to client complaints, including hotlines, emails and client managers at our securities branches, to ensure that the concerns of our clients are properly and timely addressed; and
- our internal audit department, compliance and legal affairs department and risk management department conduct regular and ad hoc audits of our brokerage business department and branches with respect to their internal controls, daily operations, financial and accounting management and risk management.

Margin Financing and Securities Lending

We have primarily taken the following measures to detect and manage risks arising in the margin financing and securities lending business:

- we evaluate each client and provide margin financing and securities lending services only to clients that meet the minimum eligibility requirements of the margin financing and securities lending business. We require clients of our margin financing and securities lending business, among others, to have a legal securities account with us, as well as the trading history and asset scale meeting relevant regulatory requirements, so as to meet the investor suitability requirements, to have certain investment experience and risk tolerance capability, good credit condition, stable assets or incomes, to be able to provide true, accurate and complete information, and be compliant with relevant laws and regulations. We have established a quantitative client credit evaluation system to determine the credit level of our clients and conduct dynamic tracking management. Based on the client's credit authorization coefficient of their assets with our company and their corresponding credit rating, we determine the credit limits of the client and carry out dynamic tracking management;

- we adjust the scope of target securities, securities as margins and their conversion rates for our margin financing and securities lending business within those published by the stock exchanges. We adjust such scope on a regular basis, and at least four times each year. We also adjust such scope on an irregular basis in unusual situations;
- we control the concentration rate of all of clients for our margin financing and securities lending business, as well as the accounts of individual clients. If the market value of a security collateralized with us exceeds a certain percentage of its total market value, or if the market value of a client's collateral exceeds a certain percentage of the total balance in that client's account balance with us, we impose limits on the purchases of such securities of all of our clients for margin financing and securities lending business, or on individual clients;
- we conduct daily mark-to-market valuations for our margin financing and securities lending business. We monitor the condition and value of collateral, amounts of loans, changes in maintenance ratios, and the maturity of our margin financing and securities lending agreements, on a real-time basis; and
- we have established an alert and forced liquidation mechanism. During the Track Record Period, we set the alert level of maintenance margin ratio as 140%-150%, and the trigger-level for a forced liquidation as 130%. If the maintenance margin ratio is lower than the alert level, we will issue a notice to a client with a request that they increase the maintenance margin ratio. If the maintenance margin ratio is lower than the ratio for forced liquidation set by us, and the client fails to increase the margin, or reduces the amount of loans to increase the maintenance margin ratio, we will conduct a forced liquidation, as well as initiating legal proceedings against such clients, if necessary.

The following table sets forth a breakdown of outstanding balances of our margin financing and securities lending business by client status as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Maintenance margin ratio	Amount	Percentage	Amount	Percentage	Amount	Percentage
Above 150%	53,061.0	97.3%	51,198.6	94.6%	36,418.8	85.3%
130%-150%	1,452.2	2.7	2,783.1	5.1	6,165.4	14.4
Below 130%	10.2	0.0	113.8	0.2	121.1	0.3
Total	**54,523.4**	**100.0%**	**54,095.5**	**100.0%**	**42,705.3**	**100.0%**

Stock-backed Lending

We attach great importance to the credit risks of our stock-backed lending business. Our principal requirement of the client is a sufficient source of repayment. Meanwhile, we have strengthened our management control over the validity of collateral by establishing a sound risk management system covering all stages of the transaction.

We have mainly adopted the following management measures:

- we have adopted a multitier risk control structure, covering: (i) due diligence, follow-up, risk alert and notifications carried out by our branches; (ii) credit assessment, project evaluation, mark-to-market valuations, client defaults and risk reports carried out by our

business department; and (iii) independent evaluation of the transaction carried out by our risk management department for transactions over certain amounts as well as monitoring the transactions;

- we have also established a multitier decision-making system, consisting of the business department, specialized business management committee and senior management meetings;
- we conduct due diligence on the identity, financial condition, operational condition, credit status, guarantee status, financing targets, risk tolerance capacity, and the condition of the securities of the client;
- we evaluate stocks after analyzing various aspects such as fundamentals, market capitalization, liquidity, valuation and volatility. Analysts in our research institute will analyze the risks of target stocks. In addition, we consider concentration rates when we evaluate the stocks;
- we have set different alert levels of collateral coverage ratios and minimum collateral coverage ratios based on factors including the type of stock, characteristics of target stocks, and taxation. Our designated personnel will oversee the collateral coverage ratios and trading periods through mark-to-market management. We continually follow the price fluctuations of pledged stocks and material events which may affect the price and value of pledged stocks, and timely evaluate the collateral coverage ratio. We also keep track of the credit conditions of the client;
- the lowest collateral coverage ratio we set for an alert level is 150%, and the lowest collateral coverage ratio we set for a forced liquidation is 130%. If the collateral coverage ratio is lower than the alert level, we will issue a notice to clients with a request to increase the collateral coverage ratio. If the collateral coverage ratio is lower than the threshold we set for liquidation, we require clients to increase the ratio by providing additional collateral or decreasing the loans. We will follow up the progress of such requests on a daily basis; and
- in the event of default, we will dispose of the collateral. In addition, we manage the risk of default through other channels, including but not limited to equity or debt transfer, third-party compensation, collateral of other assets, and judicial litigation.

After the promulgation of the new regulations relating to our stock-backed lending business, to further prevent the risks in stock-backed lending business, we have taken the following measures:

- we have revised and improved our measures and policies of the stock-backed lending business. We made the revisions in response to new regulations, including eligibility, use of funds, concentration rate management, collateral coverage ratio and other aspects, and carry out our business in strict compliance with the new regulations;
- we have strengthened concentration rate management and strictly evaluate the transactions. Within the range of concentration rates by regulatory requirement, we further set up relevant alert levels to strengthen concentration rate management. We not only assess the value of the collateral, but also pay attention to tracking the financial status of clients, investment targets, and the source of repayment when evaluating transactions;
- we have upgraded the trading system and implemented financial controls. We upgrade our trading systems in a timely manner to ensure that the systems are able to meet the business

requirements of fund control and concentration rate management. We have also entered into fund monitoring agreements with many commercial banks;

- we have actively inspected our risks on ongoing transactions and enhanced post-loan management by adjusting the structure of our ongoing transactions based on the respective risks. We have enhanced our post-loan investigations of the investment and conduct quarterly overall reviews; and
- we have also enhanced our professional team for stock-backed lending business by further increasing the number of our post-loan management personnel, as well as enhancing our training. We have established a specialized team to dispose of such collateral.

The following table sets forth a breakdown of outstanding balances of our stock-backed lending business by client status as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	(RMB in millions, except percentages)					
Collateral coverage ratio	Amount	Percentage	Amount	Percentage	Amount	Percentage
Above 150%	5,976.9	100.0%	31,792.5	98.3%	36,270.1	85.5%
130%-150%	–	–	540.0	1.7	3,799.2	7.4
Below 130%	–	–	–	–	3,653.3	7.2
Total	**5,976.9**	**100.0%**	**32,332.5**	**100.0%**	**43,772.5**	**100.0%**

As we require clients to increase their collateral coverage ratio if the ratio is lower than the liquidation threshold, and dispose of the collateral only in the event of default in which the client fails to increase the ratio as required, we generally do not liquidate client accounts immediately after the collateral coverage ratio falls below the liquidation threshold.

With regard to the majority of the outstanding balances of our stock-backed lending business as of December 31, 2018 which had collateral coverage ratios below the liquidation thresholds, we had obtained additional collateral such as stocks and fixed assets or guarantees from our clients, and thus controlled the risks. We do not count such additional collateral when calculating the collateral coverage ratio. Therefore, only a certain portion of client positions with collateral ratios below the liquidation thresholds were liquidated.

In addition, our ability to carry out forced liquidations of our client positions in our stock-backed lending business is affected by regulatory policies, such as the recent PRC regulations and rules governing the disposition of shares held by a major shareholder, director, supervisor or a member of the senior management of a listed company in China and requiring securities firms to follow the same disposition quota. For details, see "Risk Factors—We may be unable to liquidate client positions in our stock-backed lending business at a timely manner or at all" and "Regulatory Environment—Regulatory Environment of the PRC—Regulation on Operations—Stock-backed Lending Transaction Business." Therefore, we had more outstanding balances with collateral ratios lower than 130% as of December 31, 2018 compared with such balances as of December 31, 2016 and 2017.

Sales of Financial Products

In order to manage risks related to the sales of financial products, including sales of both our financial products and third-party financial products, we have primarily taken the following measures:

- we have established a series of policies and measures, including measures on the management of sales of financial products, and business operating procedures for our branches. Our risk control system over our sales of financial products includes eligibility standards, preliminary review, evaluation, review, and product sales, as well as the post-sale management of the financial products. Our specialized committee supervised by our Board of Directors evaluates risk levels of the financial products and makes decisions;
- we have set two independent procedures for the risk evaluation of the financial products to be sold, namely preliminary review and evaluation. The business departments evaluate the risk condition of the financial products considering the basis of issuance, basic nature, investment arrangements, features of risk and return and management fees, and prepare and present the preliminary risk evaluation report to the risk management department. Our risk management department independently evaluates the risks of the financial products according to the materials submitted by the business departments and issues its risk evaluation report;
- based on various factors such as product structure, liquidity, historical performance, leverage and potential principal loss, we classify the products into five levels: low risk, low to medium risk, medium risk, medium to high risk, and high risk. We sell the financial products of different risk levels according to the risk preferences of different investors;
- we evaluate the risk tolerance level of our clients using our risk tolerance assessment system and questionnaires based on a combination of factors, such as financial condition, investment experience, investment targets and risk preference. We have also adopted investor suitability management procedures to provide appropriate products or services to suitable clients;
- we have adopted eligibility management for the financial product issuer (including investment consultants), and conduct list tracking and adjustment on a regular or irregular basis based on updates from the regulatory authorities and the issuers. We internally circulate our whitelist of eligible financial products issuers and our blacklist of ineligible financial products issuers on a quarterly basis. We also dynamically adjust our lists by removing financial products issuers from our whitelist if certain incidents occur, for example, the financial product is expired, the issuer is punished by the relevant authorities, or the issuer's information needs to be updated. The relevant department will carry out due diligence on issuers who are not on our whitelist, as well as control the risks related to the issuer's management capabilities; and
- for sales of financial products, we have carried out ad hoc self-examination and internal audits for the management of branches, business promotion, risk disclosure and management of client eligibility to prevent and control risks.

Proprietary Trading

As the substantial portion of the financial instruments we hold for our proprietary trading business is marked to market, we face the risk of declines in fair values of such financial instruments. For details, see "Risk Factors—General economic, geopolitical and market conditions could materially

and adversely affect our business" and "Risk Factors—The fair value measurement of certain of our assets and liabilities is subject to significant uncertainties and risks and the fair value changes of such assets and liabilities may materially and adversely affect our results of operations."

We have set and continued to monitor the various regulatory indicators according to regulatory requirements for our proprietary trading business; and we have set stricter limits or control standards of such regulatory indicators than regulatory requirements.

We have also set and strictly follow the various limitation indicators for our proprietary trading business. We set such limitation indicators based on our annual risk preference and tolerance indicators and relevant regulatory requirements, as well as business scale and risk indicators of the previous year, market fluctuation, business plan and budget of the current year. We calculate and monitor each of the limitation indicators on a daily basis, and make timely reporting.

The following table sets forth the major risk control indicators relating to our proprietary trading business:

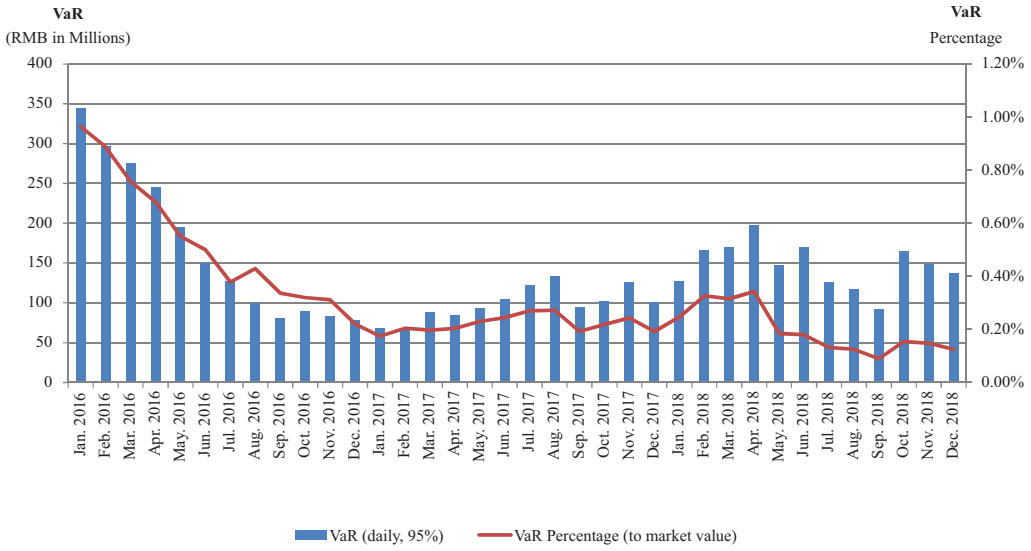
Risk Control Indicators	Indicator Limits or Control Standards	Regulatory Requirements
Regulatory indicators		
Market value of equity securities and their derivatives	No higher than 100% of Net Capital (our warning standard as 60% of Net Capital)	No higher than 100% of Net Capital
Market value of non-equity securities and their derivatives	No higher than 500% of Net Capital (our warning standard as 300% of Net Capital)	No higher than 500% of Net Capital
Limitation indicators as of December 31, 2018		
Business scale of		
Equity securities and their derivatives	RMB6.0 billion	N/A
Non-equity securities and their derivatives	RMB66.0 billion	N/A
Leverage limits of FICC sales and trading business	No higher than seven times	N/A

In addition, we have set and continued to monitor a series of risk monitoring indicators based on the features of our proprietary trading business, including VaR, Beta coefficient, and basis point value. We do not set limits on such monitoring indicators, but calculate and closely monitor any change of such indicators on a daily basis, as well as analyze potential market fluctuation and relevant changes.

When our proprietary trading business gets close to, or exceeds, the relevant risk limitations, our risk management department will send risk alert emails or risk disclosure statements to our proprietary trading business departments based on the risk level.

We do not allow any excess of the regulatory indicators. With regard to non-regulatory indicators, we require approvals by the senior management members supervising the risk management departments and business departments and reporting to the risk management department when excess is necessary. If such approval is not obtained, we require the indicators to be lowered below our limits within five business days, and require submission of a statement and a solution to the senior management members of the risk management department and business departments on the day of excess.

The following chart sets forth changes in our VaR and percentage of VaR to market value for our proprietary trading business (other than our contributions to the designated account at China Securities Finance) at the end of each month during the Track Record Period:



We mainly manage the risks arising from our proprietary trading business through the following measures:

FICC sales and trading

- we conduct in-depth research on various industries and continue to improve our internal assessment system. We adopt a negative publicity monitoring mechanism and collect negative news regarding the bonds we hold through alert systems;
- we have raised the standards for our business and established our business whitelist, and clarified our standards and procedures of approval for adjusting our eligible bond pool. We strictly control our investment in low credit ratings bonds. We have set the limitation of our investment in such bonds at no higher than 5% of the limits we set for our investment position at any given time of our fixed-income bonds and their derivatives sales and trading. When carrying out our business, we normally require a minimum credit rating of AA for bonds. We also focus on post-investment management, closely track key risk and business indicators as well as track back such indicators on an irregular basis. We are gradually carrying out self-examination to identify adverse factors and to report and find and report the solution as early as possible. We also use other derivative financial instruments such as interest rate swaps and treasury futures to hedge;
- we have expanded our financing channels and established a series of comprehensive liquidity risk indicators. We monitor such indicators and conduct liquidity stress tests to prevent extraordinary circumstances affecting our liquidity;
- we continually review our business procedures, systems, personnel and other external risks, enhance staff training, and link any possible operational failure to our employees' performance and remuneration to strengthen their risk awareness;
- we have enhanced our management of counterparties and have established a library of counterparties, conducting in-depth evaluation and management of them;

- we have established pricing models which are reviewed on a regular basis. We have strictly followed our hedging polices, and monitored and reviewed the performance and indicators of our hedging; and
- our risk management department monitors and assesses the risk exposure of our FICC sales and trading business, including derivatives.

Equity sales and trading

- we have set our criteria for selecting target stocks. We have developed relevant systems and processes for investment management, including the securities pool management mechanism, which clearly defines the standards and processes for access to, and exiting, the stock pools. We strictly restrain ST stocks from entering into our stock pool and remove any stocks with severe deterioration in fundamental or major potential risks from the stock pool in a timely manner. ST stocks are shares under special treatment by Shanghai Stock Exchange or Shenzhen Stock Exchange due to abnormal financial conditions and other matters of the issuers;
- we analyze the features of returns from different risks of various asset types, as well as actively use derivatives to hedge and reduce portfolio risk and to increase profit stability. We have established our loss cut-off mechanism for the equity trading business, and continually monitor the corresponding risk limits and loss cut-off indicators. If the market value of one stock decreases more than 30%, we will dispose of such stock within five business days. If we are unable to dispose of the stock in time, we will submit a proposed solution, such as extension of the time limit for disposal of the stock, to the senior management members supervising the risk management and business departments for approval. We take action in a timely manner with regard to those securities having risks exceeding the indicators to ensure that the risks are measurable, controllable and affordable. We have established a series of measures and policies regarding our equity trading business. Our risk management department monitors and assesses the risk exposure of our equity sales and trading business, including derivatives;
- we have established a counterparty suitability management mechanism for our OTC derivatives trading business, and have drafted the entry criteria of our counterparties. We conduct an individual review and approval of each OTC derivative transaction. We review not only relevant materials, transaction structure, prices and maximum payment, but also monitor the risk of our OTC derivatives trading business and perform risk hedging within the relevant risk exposure limits; and
- we have established business entry criteria for ETF funds, options listed on the exchanges, and other products listed on the NEEQ, and market-making quotation strategies. We have established a dynamic tracking and risk control mechanism for our market-making targets, and conducted classified management of our transactions.

Investment Management Business

Asset Management

We have set up the asset management business department which is responsible for the unified and centralized management of our asset management business. We manage the risks associated with our asset management business primarily through the following measures:

- we have established a risk management system regarding risks for asset management business, including a decision-making committee, risk management department and business department. We also have clearly set out their respective responsibilities and authorizations;
- we conduct due diligence on new clients for our asset management business. Our business department requires new clients to provide their information, including basic information such as name, address and contact information, financial information such as income, assets and liabilities, investment experiences, investment targets, risk preference and loss tolerance, credit record, and other information required by relevant laws and regulations, as well as a risk tolerance questionnaire and supporting materials;
- based on the characteristics and features of different schemes, we have established a series of risk indicators, including concentration rate, multi-tier authorization, loss cut-off, and leverage rate. We also control and monitor such risk indicators through our systems;
- we entrust client assets to qualified commercial banks, the China Securities Depository and Clearing Corporation Limited, securities firms approved by the CSRC or other asset custodian institutions that comply with the laws, regulations and regulatory rules; providing asset management services to our clients through designated accounts;
- we strictly perform our duties as the scheme manager following the scheme contract. We review and approve investment targets through our multi-tier authorization and approval mechanism, including the persons in charge of the asset management schemes, the general managers of our business departments, investment decision-making teams, and the investment decision-making committee, to protect investors. We have set up stock pools and bond pools for our investment targets based on a trading list, and continued to update the securities pools. The responsible person for our asset management scheme conducts research and investment analysis, and identifies and selects the target securities for investment within authorization, or reports the proposed target for approval if beyond authorization. We have also established review procedures for key business processes in order to control operational risk;
- we have established a business segregation system. Our asset management business and proprietary trading business are conducted by different business departments and personnel. We have segregated the sites, systems, and accounts of the respective businesses. Meanwhile, we have set limits and continued to monitor the trading activities of our asset management business and proprietary trading business to ensure their segregation; and
- we have established and implemented a fair trading mechanism for our asset management business to ensure fair trading as well as the independence of our investment portfolio, through reasonable structure among our various asset management businesses and within the respective asset management businesses.

Mutual Fund Management

We primarily manage the risks associated with our mutual fund management business through the following measures:

- we have established our risk control system, including the Board of Directors, the management, the internal risk control department and other business departments;
- we have taken comprehensive measures to manage the investment risks of our mutual funds, including compliance risk, liquidity risk, credit risk and market risk;

  our independent risk management department sets strict compliance risk control procedures, monitors the performance of the compliance risk indicators set by laws and regulations as well as our mutual funds agreements throughout investment, and makes warnings and instructions to our business departments accordingly;

  we have established a strict monitoring mechanism targeting the redemption status of mutual funds as well as approval procedures for huge amount redemption. Our business department and risk management department monitor and forecast the liquidity indicators of our funds on an ongoing basis, and they continuously assess, select, following up and control the investment liquidity risk of our portfolio through indicators. In addition, we have established regular and irregular stress testing and emergency plans;

  we have established an internal credit rating management system to build a corresponding bond investment pool. We also keep track of the concentration condition of investment positions. In addition, we have established an independent regular credit investigation mechanism. Our risk management department tracks and inspects negative information on our current investment positions on a daily basis and alerts business departments in a timely manner. Our risk management department has also established a credit inspection model with reference to external negative credit incidents, market interest rates and other financial indicators to inspect the negative credit information on our current investment positions and individual securities with high risks, and circulates the credit reports to our business departments on a monthly basis;
- our business department researches and monitors the risks arising from fundamental changes in macroeconomic factors, industry cycles and operational conditions. It also adopts various indicators to monitor and manage market risks;
- we entrust our clients' assets to eligible commercial banks or other trustees accredited by the CSRC in accordance with relevant laws and regulations. We segregate the mutual fund business from other businesses in terms of venue, personnel, accounts, funds and other information, and also segregate material non-public investment information or sensitive information, to effectively prevent insider trading and other inappropriate activities. We have also established a fair trading system for mutual fund management business; and
- we have established a mutual fund-related information disclosure management system to disclose fund information so as to adhere to the principles of authenticity, accuracy, promptness and completeness. We disclose information on a fund's raising, operations, material events, emergency events and material personnel changes through regular and as required disclosures. We also adjust such disclosures on a regular or an as required basis.

Private Investment Fund Management

We conduct our private investment fund management business strictly in compliance with relevant regulatory requirements, and manage the risks associated with our private investment fund management business through the following measures:

- we have set up a comprehensive qualified investors review and risk disclosure system and developed appropriate management measures to assess the risk identification capacity and risk tolerance level of investors. We raise funds from qualified investors, fully disclose the risks associated with them and set an investment cooling-off period for them;
- we have established sound investment decision-making mechanisms for all of our funds, and each of our private investment funds will carry out its investment decision-making according to the relevant mechanism, in order to prevent insider trading, conflicts of interest and other improper trading activities;
- we have established information disclosure management measures relating to our private investment fund management business which require authentic, accurate, timely and complete disclosure of fund information. It is also required that fund information, financial information, major events and emergencies, as well as material changes in personnel of the funds, be disclosed by way of regular and as required disclosures; and
- we segregate our private investment fund management business from other businesses to prevent insider trading and other improper trading activities.

Conflicts of Interests Management

During the course of our business operations, we continually encounter conflicts of interest. We take measures to address any potential conflicts of interest that may arise in our business operations. Conflicts of interest may exist between: (i) our different businesses; (ii) our clients and us; (iii) our clients; (iv) our employees and us; or (v) our clients and our employees. We have the following preventive measures to address potential conflicts of interest:

Information barrier

An information barrier, otherwise known as a "Chinese Wall," is a form of segregation or barrier to ensure that the sharing of confidential information is properly controlled such that two or more business units or project teams can operate independently without compromising the interests of their respective clients. An information barrier can be physical segregation (e.g. different office locations or in a segregated location), system segregation (e.g. different IT systems, controlled shared folders, printing devices), or process segregation (e.g. policies and procedures or guidance requiring their adherence by employees), or a combination of them. We adopt a combination of all or some of these information barriers for our business operations. For business units that are subject to specific regulatory requirements or have continual access to material non-public information, such as equities underwriting, we generally impose more stringent information barrier controls.

Our compliance handbook and confidentiality management measures also require our employees to keep client information confidential. During the Track Record Period, we did not experience any material failure in respect of protecting confidential information from, or related to, our clients.

Conflict check and centralized control process

We have adopted a conflict check and control room process through the maintenance of a "closely monitored list" and "restricted list." In addition, before carrying out projects for our investment banking business, proprietary trading, and securities firms asset management business, our project team runs a "conflict check" against other transactions in relation to such potential client, which is then reviewed by the legal compliance department, to identify any existing or potential conflicts.

The control process also covers the review and approval of the publication of secondary market research reports. In the ordinary course of publishing research reports, research analysts are required to submit draft research reports to our supervisory analysts who edit the research reports, and to our legal and compliance departments for review and approval before publication.

We have also introduced conflicts of interest management measures for our asset management, mutual fund management and private investment fund management businesses. See "—Risk Management and Internal Control Measures in Our Major Business Lines—Investment Management Business."

Anti-Money Laundering Management

As part of our internal control system, we have adopted policies and procedures to prevent money laundering and terrorist financing in strict compliance with applicable laws and regulations. We have established comprehensive "Know Your Client" procedures to ascertain client identities before formal acceptance. We adopt strict identification measures to profile clients with a higher than average likelihood of engaging in money laundering and terrorist financing activities. Considering our "Know Your Client" procedures, we make efforts during client identification to better understand our clients and their actual controllers and beneficiaries and to explore their operations, activities and sources of assets.

We attach great importance to anti-money laundering, have actively implemented the latest regulations of the PBOC, strengthened customer identification and suspicious transaction reporting, and further improved our anti-money laundering system.

Our legal and compliance department formulates anti-money laundering policies and procedures based on regulatory requirements. Such policies and procedures are implemented in our business operations.

We provide regular anti-money laundering training to our employees to help them understand the screening process and the current regulatory landscape. Employees who know, suspect, or have a reasonable belief, that a client might have engaged in money laundering activities are required to immediately report such activities to our legal and compliance department, which, in turn, reports to the competent authorities as necessary. We also actively cooperate with regulators covering various anti-money laundering activities.

We have not engaged in or knowingly assisted any money laundering or terrorist financing activities. During the Track Record Period, we were not sanctioned by any regulators for failure to strictly comply with applicable anti-money laundering laws and regulations, except for some individual branches which were penalized by regulators for improper behavior. For risks associated with anti-

money laundering activities, see "Risk Factors—Risks Relating to Our Business and Industry—We may fail to implement relevant internal control measures or detect money laundering and other illegal or improper activities in our business operations on a timely basis."

OVERVIEW

We have in the past conducted certain transactions with entities that will become our connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules) upon **[REDACTED]**. Such transactions will continue after **[REDACTED]** and will therefore constitute our continuing connected transactions under the Hong Kong Listing Rules.

As our A Shares are listed on the Shenzhen Stock Exchange, we will continue to be subject to and regulated by the Shenzhen Stock Exchange Listing Rules and other applicable laws and regulations in the PRC so far as our A Shares remain listed. The requirements of the Hong Kong Listing Rules in relation to connected transactions are different from those of the Shenzhen Stock Exchange Listing Rules. In particular, the definition of connected person under the Hong Kong Listing Rules is different from the definition of related party under the Shenzhen Stock Exchange Listing Rules. Therefore, a connected transaction under the Hong Kong Listing Rules may or may not constitute a related party transaction under the Shenzhen Stock Exchange Listing Rules, and vice versa.

CONNECTED PERSONS

Upon **[REDACTED]**, the directors (including persons who were directors in the last 12 months), supervisors and chief executives of the Company and its subsidiaries (apart from insignificant subsidiaries) and their respective associates will become our connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules). As of the Latest Practicable Date, JIC directly held approximately 29.27% of our total issued share capital and will directly hold approximately **[REDACTED]** of our total issued share capital immediately after completion of the **[REDACTED]** (assuming the **[REDACTED]** is not exercised). Therefore, JIC will remain as our substantial shareholder, and hence, JIC and its associates will constitute our connected persons under Chapter 14A of the Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Property Leasing Agreement

Historically, our subsidiaries have leased certain properties in the PRC from JIC and/or its associates for our offices and business uses. The terms and conditions of the property leasing (including but not limited to the leasing fees charged by JIC and/or its associates) are on normal commercial terms comparable to those offered by Independent Third Parties. It is expected that our subsidiaries will continue to lease such properties from JIC and/or its associates upon **[REDACTED]**, which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

The gross floor area we leased from JIC and/or its associates was very small. Taking into account the consideration paid by us for such property leasing during the Track Record Period, our Directors currently expect that all the relevant percentage ratios calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will be less than 0.1% on an annual basis. Therefore, such transactions are *de minimis* transactions and will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

If the relevant percentage ratio(s) calculated based on the consideration of such property leasing exceeds the *de minimis* threshold stipulated under the Hong Kong Listing Rules, we will comply with the applicable requirements thereunder.

Miscellaneous Services Framework Agreement

Historically, Jiantou Data Technology Co., Limited (建投數據科技股份有限公司), a wholly-owned subsidiary of JIC, provided us with miscellaneous non-financial services including computer room maintenance services and power expansion services. We have leased certain properties from JIC and/or its associates used as computer rooms, and therefore have maintained an in-depth and long-term cooperation relationship with JIC and its associates in respect of computer maintenance services. JIC's associates possesses expertise and professional facilities to provide accompanied maintenance services and power expansion services. The selection process was similar to that we adopt when we select Independent Third Parties as such service providers. It is expected that our subsidiaries will continue to purchase such services from JIC and/or its associates upon **[REDACTED]**, which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

Taking into account the consideration paid by us for such miscellaneous services during the Track Record Period, our Directors currently expect that all the relevant percentage ratios calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will be less than 0.1% on an annual basis. Therefore, such transactions are *de minimis* transactions and will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

If the relevant percentage ratio(s) calculated based on the consideration of such miscellaneous services exceeds the *de minimis* threshold stipulated under the Hong Kong Listing Rules, we will comply with the applicable requirements thereunder.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Securities and Financial Products, Transactions and Service Framework Agreement

Principal terms

We entered into a Securities and Financial Products, Transactions and Services Framework Agreement (the "**Securities and Financial Products, Transactions and Services Framework Agreement**") with JIC on March 29, 2019 for a term commencing from the **[REDACTED]** to December 31, 2021, subject to renewal. It is expected that separate contracts will be entered into between members of our Group and JIC and its associates to provide for the terms and conditions of the specific transaction(s) in accordance with the principal terms set out in the Securities and Financial Products, Transactions and Services Framework Agreement.

Pursuant to the Securities and Financial Products, Transactions and Services Framework Agreement, the Company and JIC agreed to conduct securities and financial transactions with one another and/or their respective associates, and provide securities and financial products and services to one another, in our and their respective ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates.

A. Securities and Financial Products and Transactions

The following transactions have been carried out and will be entered into in our ordinary and usual business and on normal commercial terms or better, and our Directors expect that the relevant

percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will be more than 5% on an annual basis. Such transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

According to the Securities and Financial Products, Transactions and Services Framework Agreement, we expect that the securities and financial product and transactions between us and JIC and/or its associates include (but not limited to) the following:

- equity-related products or transactions, including funds, trust, asset management schemes, convertible bonds, structured products;
- fixed-income products, including funds, trust, bonds, and structured products with fixed income characteristics;
- financing transactions among financial institutions with or without guarantees;
- other related securities and financial products and derivative products,

together, the "**Securities and Financial Products and Transactions**".

Reasons for the transactions

In the normal course of our business, we regularly engage in various kinds of securities and financial products transactions with various counterparties, including JIC and its associates. We purchase suitable securities and financial products from different providers (including JIC and its associates, which are our connected persons, and Independent Third Parties) based on our internal evaluation system and procedures with reference to various factors including the cost, market condition and our risk exposure, business needs and development requirements. JIC and/or its associates may also purchase securities and financial products from us in their ordinary course of business from time to time, taking into account their business needs and the suitability of the products we offered.

Pricing basis

The market rates in respect of each of the Securities and Financial Products and Transactions are generally transparent and standardized across the market. The commission rates and fees charged for these products and transactions shall be determined based on the prevailing market price or based on arm's length negotiation with reference to the prevailing market rates normally applicable to Independent Third Parties for similar types of transactions at the time of the transactions. To ensure that the Securities and Financial Products and Transactions are on normal commercial terms and to safeguard the interests of our Shareholders as a whole, we have put in place internal approval and monitoring procedures relating to our connected transactions, further details of which are set out in "—Measures to Safeguard the Interests of our Shareholders" below.

Historical figures

The approximate historical figures of Securities and Financial Products Transactions entered into between us and JIC and/or its associates for the three years ended December 31, 2016, 2017 and 2018 were as follows:

	Historical figures (in RMB thousands) for the year ended December 31,		
Securities and Financial Product Transactions	**2016**	**2017**	**2018**
In[1]	126,407	1,705,401	186,464
Out[2]	1,091,126	1,070,086	1,210,413

(1) "In" means the total cash inflow to our Group arising from the Securities and Financial Products Transactions, including but not limited to the sale and redemption of the relevant products, interests received from the relevant products.

(2) "Out" means the total cash outflow from our Group arising from the Securities and Financial Products Transactions, including but not limited to the purchase of the relevant products, interests paid for the relevant products and outflow arising from repurchase of relevant products from our counterparties.

Annual caps

We consider that it is impracticable and extremely difficult to set a separate annual cap for each type of the Securities and Financial Products Transactions for the following key reasons:

- **each of the Securities and Financial Products Transactions is entered into at the then prevailing market prices in the ordinary course of our business with high frequency and significant fluctuations in the value of such transactions.** Such transactions are market-driven and are entered into depending on various factors including, among others, the bidding price and timing of the bids. The value of each of these transactions is determined by the market and varies from time to time and from year to year depending on various external factors that are out of our control, including the then economic conditions as well as the fluctuations in the financial markets. Accordingly, historical figures for each type of these transactions may not be a fair indication as to the expected aggregate value of the transactions for the three years ending December 31, 2021;
- **setting an annual cap for each type of the Securities and Financial Products Transactions may adversely affect our business.** Most of the Securities and Financial Products Transactions are entered into in a very short timeframe and are very sensitive to market prices. If an annual cap is set for each type of the Securities and Financial Products Transactions, it may cause significant delay to such transactions and undue disruption to our existing operations and potential growth to the detriment of the Company and our Shareholders as a whole and restrict our overall competitiveness in a highly competitive securities industry. Setting an annual cap for each type of these transactions will therefore be impracticable and extremely difficult for our Company;
- **constant emergence of new products.** The variety and characteristics of products are changing frequently in the ever-changing PRC securities and financial market, hence it is difficult to practically estimate with accuracy when new products will be launched;
- **we play a relatively passive role in some of these transactions.** As such, it is impracticable for us to estimate the expected annual value of such transactions with accuracy. For example, JIC and/or its associates may purchase our products based on their own business needs. We handle such transactions with JIC and/or its associates in a manner similar to our transactions with Independent Third Parties, and we have no control over whether and which products JIC or its associates purchase or the timing or amount of their purchases; and
- **all Securities and Financial Product Transactions will continue to be entered into at the then prevailing market prices or market rates in the ordinary course of our business and the business of JIC and/or its associates.**

In light of the above, we consider that it is more practicable to set annual caps for the total inflow and outflow of all the Securities and Financial Products and Transactions under the Securities and Financial Products, Transactions and Services Framework Agreement as below, instead of a separate annual cap for each type of those products and transactions.

The estimated annual caps of the total principal and interests amount of the Securities and Financial Products Transactions for the three years ending December 31, 2021 are as follows:

	Annual Caps (in RMB thousands) for the year ending December 31,		
Securities and Financial Product Transactions	**2019**	**2020**	**2021**
In[(1)]	4,690,721	4,048,500	4,456,500
Out[(2)]	4,053,000	4,419,000	4,437,800

(1) "In" means the total cash inflow to our Group arising from the Securities and Financial Products Transactions, including the sale and redemption of the relevant products, interests received from the relevant products.

(2) "Out" means the total cash outflow from our Group arising from the Securities and Financial Products Transactions, including the purchase of the relevant products, interests paid for the relevant products and outflow arising from repurchase of relevant products from our counterparties.

In estimating the annual caps of the total inflow amount and outflow amount of the Securities and Financial Products Transactions, we have considered, among others, the following key factors:

- historical figures of the total inflow amount and total outflow amount of certain securities and financial products and transactions between certain members of the Group and JIC and its associates during the Track Record Period, including subscription of trust and fund products between certain members of the Group and JIC's associates, the annual caps of which are expected to remain stable compared with their historical amounts, i.e. approximately RMB1,000 million. The inflow in 2016 and 2018 were relatively low as the Group mainly purchased securities and financial products from JIC and/or its associates. In determining the annual caps, the Group took comprehensive consideration of the inflow and outflow in the past three years as a whole.

- new demands for certain new types of securities and financial products by certain members of the Group from JIC and its associates, in combination of the inherent nature of the securities and financial products and transactions described above, including their market-sensitivity and timeliness, and our Company's limited control over the counterparties in those transactions, as well as the volatility and unpredictability of the financial markets in general. The annual caps of inflow and outflow of the following five types of transactions are expected to be approximately RMB3,500 million respectively in the year ending December 31, 2019. In particular,

  (i) for asset management products, the historical inflow and outflow in 2017 and 2018 were relatively low. However, the products entrusted for our management by JIC's associates in 2017, the size of which was approximately RMB500 million, will be gradually redeemed by the year of 2020. In addition, considering that JIC's associates may have new demands in the near future, it is estimated that for the three years ending December 31, 2021, the inflow will be approximately RMB200 million each year, and the outflow will be approximately RMB500 million each year;

  (ii) for fund products transaction between certain members of the Group and JIC's associates, the historical transaction amount during the Track Record Period was relatively low. However, due to new demands from JIC's associates, the transaction amount increased to approximately RMB800 million as of the end of 2018. Therefore, it is expected that the inflow and outflow will be approximately RMB1,000 million in 2019 and increase at the rate of 20% each year for the two years ending December 31, 2021. In addition, certain members of the Group, which did not conduct such transaction with JIC's associates during the Track Record

Period, are expected to conduct such transactions considering our cooperation with JIC and/or its associates, which are expected to record inflow and outflow of approximately RMB250 million, respectively. Therefore, it is expected that the inflow and outflow of the fund products transaction in aggregate will be approximately RMB1,250 million, respectively, for the year ending December 31, 2019;

(iii) for securities trading, the single transaction amount is usually large, which usually ranges from RMB10 million to RMB100 million, and such transactions require timely decision. As certain members of our Group conduct securities trading transactions with JIC's various associates, according to the historical transactions and the market trading rules, we expect that our transaction with JIC and its associates will account for approximately 0.025% of our total transaction amount in respect of securities trading. Therefore, and the inflow and outflow are expected to be approximately RMB1,100 million, respectively, in each year of the three years ending December 31, 2021;

(iv) for market making transactions, we will primarily trade the Gold Exchange Trade Funds owned by JIC's associates, and such fund size are approximately RMB500 million. As the annual caps will be an accumulated cash flow amount, considering the frequency and unpredictability of such transactions, we expect that the inflow and outflow with JIC and its associates will increase, which will be approximately RMB500 million respectively each year for the three years ending December 31, 2021; and

(v) for the bond-pledged repurchase transactions, we recorded a total transaction amount of over RMB6,000 billion, and usually a single transaction amount would exceed RMB10 million. Such transactions usually take place within a short period of time. Therefore, considering the potential business corporation, we expect that the inflow and outflow of pledge-style repurchase transactions of bonds with JIC and its associates will be approximately RMB500 million respectively each year for the three years ending December 31, 2021.

B. Securities and Financial Services

The following transaction has been carried out and will be entered into in our ordinary and usual business course and on normal commercial terms or better, and our Directors expect that the relevant percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% on an annual basis. Such transaction will be subject to the reporting, annual review and announcement requirements but exempt from strict compliance with the shareholders' approval requirements under Chapter 14A of the Listing Rules.

According to the Securities and Financial Products, Transactions and Services Framework Agreement, JIC agreed to purchase and the Company agreed to provide securities and financial services to JIC and its associates in its ordinary course of business based on normal commercial terms and market practices at prevailing market prices. The securities and financial services provided to JIC and/or its associates include (but not limited to) the following (together the "**Securities and Financial Services**"):

- financial products agency sale services. We receive service fees and/or other fees for such services;

- leasing of trading units services. We lease our trading units to institutional clients and receive trading commission and/or other fees for such services;
- brokerage services—including securities brokerage and related financial products brokerage services. We receive brokerage commissions for such services;
- investment banking services—including underwriting and sponsorship services for equity securities and other products, and financial advisory services for other general corporate restructuring, mergers and acquisition. We receive underwriting commission, sponsor fee, financial advisory fees and/or other fees for such services;
- asset management services. We manage the assets of customers and receive service fees for such services; and
- other miscellaneous securities and financial advisory and consulting services. We receive advisory fees and/or other fees for such services.

Reasons for the transactions

In our ordinary course of business, we provide Securities and Financial Services to our clients, which include JIC and for its associates. Due to their business needs and our expertise and professional capabilities, we had been engaged by JIC and its associates to provide Securities and Financial Services from time to time during the Track Record Period.

Pricing basis

The pricing basis for the Securities and Financial Services we provided to JIC and its associate is as follows:

- **financial products agency sale services**—service fees shall be determined based on factors including market prices, industry practice and the total amount of financial products under the agency sale arrangements with reference to the service fee rate charged by us for comparable agency sale service provided to independent third party;
- **leasing of trading units**—we charge a percentage of the trading volume in respect of each trade conducted through our trading units as our commission where such percentage shall be determined based on the then prevailing market rates and industry practice. The commission rates charged on the leasing of trading units are generally transparent across the market;
- **brokerage services**—the commission rates for these services are generally transparent and standardized across the market. The commission rates are determined based on arm's length negotiation with reference to the prevailing market rates for comparable securities or futures;
- **investment banking services**—financial advisory fees and other service fees shall be determined after taking into account factors including the transaction nature and size, and the then prevailing market conditions. The fees for investment banking services are generally transparent across the market, which enables us to adopt a market-based pricing approach;
- **asset management services**—the fees charged for asset management services are determined based on arm's length negotiations with reference to factors including the

prevailing market rates, the size of the assets and the complexity of the particular service provided. The market rates for these services are generally transparent across the market; and

- **other miscellaneous securities and financial advisory and consulting services—**such services are determined based on arm's length negotiation with reference to the prevailing market rates for transactions of similar type and size.

The terms (including pricing terms) in respect of the securities and financial services we provided to JIC and/or its associates shall be comparable to those provided to our other independent institutional clients of similar profile and transaction amount. The securities and financial services shall be subject to the same or stricter internal approval and monitoring procedures and pricing policies applicable to independent clients. For further details, see "—Measures to Safeguard the Interests of Our Shareholders."

Historical figures

The approximate historical figures of Securities and Financial Services entered into between us and JIC and/or its associates for the three years ended December 31, 2016, 2017 and 2018 were as follows:

	Historical figures (in RMB thousands)		
	for the year ended December 31,		
Securities and Financial Services	**2016**	**2017**	**2018**
Our revenue generated from providing services to JIC and its associates . . .	18,863	19,085	12,851

Annual caps

The estimated annual caps of our revenue generated from providing services to JIC and its associates for the three years ending December 31, 2021 are as follows:

	Annual caps (in RMB thousands)		
	for the year ending December 31,		
Securities and Financial Services	**2019**	**2020**	**2021**
Our revenue to be generated from providing services to JIC and its associates	19,000	22,800	27,360

In estimating the annual caps of the revenue to be generated by us from the Securities and Financial Services, we have considered, among others, the following specific key factors:

- historical amounts of the revenue we generated from providing financial services to JIC and its associates during the Track Record Period, including the different service fee rates and fees we charged for the provision of different types of financial services, and considering, in particular, that our provision of financial services to JIC and its associates is largely market-driven and so the proposed annual caps shall include an adequate buffer to cover any market volatility and changes. Otherwise, an annual cap that is too restrictive might cause undue disruption to our operations and hamper our ability to respond quickly to changes in the highly volatile financial market;
- The growing and diversifying business of JIC and its associates, as well as our plan to enhance collaboration between us and JIC and its associates, will create more opportunities for us to provide financial services;

- The fee charged by certain services will probably increase considering the market condition. For example, the service fee of financial products agency sale services will probably increase at the rate of 10% each year for the three years ending December 31, 2021, and the scale and fees in relation to brokerage services is expected to increase at the rate of 20% each year for the three years ending December 31, 2021; and
- The PRC securities market is expected to further develop alongside the economic growth and market reforms, and our Company will continue to diversify our financial services.

In addition, the proposed annual caps are determined after taking into account the factor of inflation and under the assumptions that there will not be any material and adverse changes in market conditions, operational and business environment or government policies which may have material impact on the business of the Group and that of JIC and/or its associates during the relevant periods under projection.

Waivers Granted by the Hong Kong Stock Exchange

The highest applicable percentage ratio in respect of the transactions described in the above "Non-exempt Continuing Connected Transactions—A. Securities and Financial Products and Transactions" under the Securities and Financial Products, Transactions and Service Framework Agreement is above 5%. Such transactions, therefore, shall be subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The highest applicable percentage ratio in respect of the transactions described in the above "Non-exempt Continuing Connected Transactions—B. Securities and Financial Services" under the Securities and Financial Products, Transactions and Service Framework Agreement is above 0.1% but less than 5%. Such transactions, therefore, shall be subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As the non-exempt continuing connected transactions are expected to continue on a recurring and continuing basis, our Directors consider that strict compliance with the announcement, circular and independent shareholders' approval requirements would be impracticable, unduly burdensome and would impose unnecessary administrative costs upon us. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver under Rule 14A.105 of the Hong Kong Listing Rules from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules in respect of the non-exempt continuing connected transactions. We will comply with the applicable requirements of the Listing Rules if we exceed the proposed annual caps set out above or if there are significant changes in the terms of such transactions.

In the event of any future amendments to the Hong Kong Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this document, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Measures to Safeguard the Interests of our Shareholders

To safeguard the interests of our Shareholders as a whole, including the minority Shareholders, we have put in place internal approval and monitoring procedures relating to our connected transactions, which include the following:

- in the offer or sale of the same batch of securities and financial products and services to customers (including both connected persons and Independent Third Parties), we will offer the same pricing terms to all customers and no preferential terms shall be provided to the customers who are our connected persons; and
- we have formulated internal guidelines according to Hong Kong Listing Rules, which provide approval procedures for connect transactions.

Our independent non-executive Directors and auditors will conduct an annual review of our continuing connected transactions (including the rates offered by and to JIC and its associates) and provide annual confirmations in accordance with the Hong Kong Listing Rules that the individual transactions are conducted in accordance with the terms of the relevant agreements, on normal commercial terms and in accordance with our pricing policy and in the interests of our Shareholders as a whole.

Confirmation from our Directors

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions as set out above have been and will be entered into in our ordinary course of business and on normal commercial terms or better, and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The proposed annual caps for those transactions are fair and reasonable and in the interest of the Company and the shareholders as a whole.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that the continuing connected transactions under the Framework Agreement have been and will be entered into in the ordinary course of business of our Company and on normal commercial terms or better, and are fair and reasonable and in the interest of our Company and the Shareholders as a whole. The proposed annual caps for those transactions are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

OVERVIEW

The Board currently consists of 12 Directors, amongst whom three are executive Directors, five are non-executive Directors and four are independent non-executive Directors. The Board is responsible, and has the general authority for, the management and operation of the Company. Our Directors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office. The independent non-executive Directors of a listed company shall not hold office for more than six consecutive years.

Our Board of Supervisors currently consists of eight Supervisors, amongst whom four are Supervisors appointed by Shareholders' general meetings and four are employee representative Supervisors, elected at employee representative assemblies. Our Supervisors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office.

Our senior management is responsible for the management of day-to-day operations of the Company.

Directors, Supervisors and Senior Management

The following table shows the key information of our Directors as of the Latest Practicable Date. All of our Directors meet the qualification requirements under the Hong Kong Listing Rules and relevant PRC laws and regulations for their positions.

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility
Mr. Chu Xiaoming (儲曉明)	57	August 2010	December 6, 2010	Chairman of the Board and Executive Director	Presides over the day-to-day operations of the Board, participates in making significant decisions, responsible for general operation of the Board and gives advice on the Company's strategies, remuneration and nomination of Directors and senior management
Mr. Yang Wenqing (楊文清)	56	March 2019	March 21, 2019	Vice Chairman of the Board and Executive Director	Assists chairman of the Board to preside over the day-to-day operations of the Board, participates in making significant decisions and gives advice on the Company's strategies
Mr. Chen Liang (陳亮)	51	October 1994	February 11, 2015	Executive Director	Participates in making significant decisions and takes charge of the overall operation and management
Mr. Chen Jianmin (陳建民)	56	November 2010	February 13, 2017	Non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company, and gives advice on our risk management

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility
Mr. Wang Honggang (王洪剛)	44	September 2016	September 12, 2016	Non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company, and gives advice on our audit and risk management
Mr. Wang Fengchao (王鳳朝)	54	January 2019	January 14, 2019	Non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company
Ms. Ge Rongrong (葛蓉蓉)	51	March 2019	March 21, 2019	Non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company
Mr. Ren Xiaotao (任曉濤)	48	March 2019	March 21, 2019	Non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company
Ms. Ye Mei (葉梅)	53	December 2012	December 11, 2012	Independent non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company, gives advice on remuneration and nomination of our Directors and senior management, and on audit matters
Mr. Xie Rong (謝榮)	67	December 2012	December 11, 2012	Independent non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company, and gives advice on our audit matters and our remuneration and nomination matters of Directors and senior management
Ms. Huang Danhan (黃丹涵)	70	December 2012	December 11, 2012	Independent non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company, and gives advice on our audit and risk management
Ms. Yang Qiumei (楊秋梅)	54	February 2019	February 20, 2019	Independent non-executive Director	Participates in making significant decisions relating to the operating strategy of the Company, and gives advice on remuneration and nomination of our Directors and senior management

DIRECTORS

Mr. Chu Xiaoming (儲曉明), aged 57, is the chairman of our Board and our executive Director. Mr. Chu successively held various positions at the Industrial and Commercial Bank of China

from August 1984 to June 2002, including staff member, deputy chief section member of the business credit department, the principal and deputy head of the project appraisal office of the technology renovation and loan department, deputy head of the investigation and appraisal office of the technology renovation and loan department, head of the investigation and appraisal office of the fixed assets loan department, head of the infrastructure appraisal office of the valuation and consultancy department, the general manager of Yintong Investment Consulting Company Limited, and the researcher at the deputy general manager level of the banking asset risk management department successively. Mr. Chu worked at China National Offshore Oil Corporation ("CNOOC") from June 2002 to August 2010, successively held the positions of deputy general manager of CNOOC Finance Corporation Limited, executive deputy general manager, secretary of the Party Committee and general manager of Zhonghai Trust and Investment Co., Ltd.; secretary of the Party Committee of Shenyin & Wanguo Securities Co., Ltd.*(申銀萬國證券股份有限公司) from August 2010 to December 2014; general manager of Shenyin & Wanguo Securities Co., Ltd. from October 2010 to January 2015; vice chairman of the board of Shenyin & Wanguo Securities Co., Ltd. from December 2010 to February 2015; he also successively took the position of vice chairman of the board and general manager of Shenyin Wanguo (H.K.) Limited and vice chairman of the board and general manager of Shenwan Hongyuan (International) Holdings Limited from December 2010 to March 2016; chairman of the board of directors of Shenyin Wanguo (H.K.) Limited, chairman of the board of directors of Shenwan Hongyuan (H.K.) Limited from December 2010 to March 2016 successively; vice chairman of the board of SWS Research Co., Ltd. since March 2011; the secretary of the Party Committee of Shenwan Hongyuan Group Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd. since December 2014; the executive director and chairman of the board of Shenwan Hongyuan Securities Co., Ltd. since January 2015; the executive Director and chairman of the Board of Shenwan Hongyuan Group Co., Ltd. since February 2015; and the chairman of the board of Shenwan Hongyuan (International) Holdings Limited since March 2016.

Mr. Chu obtained the bachelor's degree in economics from Central Institute of Finance and Banking* (中央財政金融學院, now known as Central University of Finance and Economics) in July 1984 and his MBA (International Curriculum) degree from the University of Hong Kong in December 2003.

Mr. Yang Wenqing (**楊文清**), aged 56, is the vice chairman of the Board and our executive Director. From September 1997 to March 2003, he successively served as department cadre of Executive Office of the China Development Bank and the office director of the business department. From April 2003 to June 2005, he served as member of the Party Committee, vice president and Secretary of Committee for Discipline Inspection of the Hainan Branch of the China Development Bank. From June 2005 to March 2008, he served as deputy director of the Party Committee Office and deputy director of the General Office of the China Development Bank. From March 2008 to December 2013, he served as Party Secretary and president of the Gansu Branch of the China Development Bank. From December 2013 to July 2015, he served as Minister of the CPC organization department and director general of Human Resources Department of the China Development Bank. From July 2015 to January 2019, he served as Secretary of Committee for Discipline Inspection and member of the Party Committee of the China Investment Corporation. Since March 2019, he has served as executive Director and the vice chairman of the Board of Shenwan Hongyuan Group Co., Ltd.

Mr. Yang obtained a bachelor's degree in economics from Shanxi University of Finance and Economics in July 1986 majoring in finance. Mr. Yang is a senior economist.

Mr. Chen Liang (陳亮), aged 51, is our executive Director. Mr. Chen served as the director of the computer division of Xinjiang Hongyuan Trust and Investment Co., Ltd. from October 1994 to December 1996. From February 1996 to December 1996, he concurrently served as the deputy general manager of the securities division of Xinjiang Hongyuan Trust and Investment Company Limited. From July 1996 to December 1996, he concurrently acted as the manager of the securities branch in Wenyi Road of Xinjiang Hongyuan Trust and Investment Company Limited. From July 1997 to July 1998, he served as the deputy general manager of securities business branch of Xinjiang Hongyuan Trust and Investment Co., Ltd. (entitled to act as a general manager of the division), as well as the general manager of securities branch in Wenyi Road of Xinjiang Hongyuan Trust and Investment Company Limited. From July 1998 to February 2001, he served as the deputy general manager of securities business headquarter of Xinjiang Hongyuan Trust and Investment Co., Ltd. From February 2001 to May 2003, he served as the general manager of the Urumqi business headquarter of Hong Yuan Securities Co., Ltd. From May 2003 to February 2007, he served as the assistant to general manager of Hong Yuan Securities Co., Ltd. From February 2007 to June 2009, he served as the general manager of the Xinjiang sales and marketing center of Hong Yuan Securities Co., Ltd. and; from June 2009 to September 2009, he acted as the general manager of the brokerage business headquarters of Hong Yuan Securities Co., Ltd. From September 2009 to January 2015, he took the position of deputy general manager of Hong Yuan Securities Co., Ltd. He served as the chairman of the board of directors of Hongyuan Futures Co., Ltd. from December 2009 to December 2016; a member of the Party Committee of Shenwan Hongyuan Group Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd. since December 2014; the executive director of Shenwan Hongyuan Industrial Investment Management Company Limited* (申萬宏源產業投資管理有限責任公司) from January 2015 to December 2016; the general manager of Shenwan Hongyuan Group Co., Ltd. as well as executive director of Shenwan Hongyuan Securities (Western) Co., Ltd. since January 2015; the executive Director of Shenwan Hongyuan Group Co., Ltd. since February 2015; and the secretary of the Party Committee of Shenwan Hongyuan Securities (Western) Co., Ltd. since August 2015.

Mr. Chen graduated from Xinjiang University specialized in Mathematics in July 1989 and obtained the EMBA degree from Fudan University in January 2016.

Mr. Chen Jianmin (陳建民), aged 56, is our non-executive Director. Mr. Chen served as the deputy head of the Audit Office of Yunnan Province from April 1994 to March 1998. He served as the deputy head and researcher of the Office of People's Government of Yunnan Province from March 1998 to August 2001 and deputy head of leading group office for the rectification of securities institution of People's Government of Yunnan Province; the deputy general manager of Yunnan International Trust Investment Corporation* (雲南省國際信托投資公司) from October 2001 to March 2002; the vice president of Hongta Securities Co., Ltd. from March 2002 to October 2010 and served in the non-banking division of Central Huijin Investment Ltd. as designated board member for invested companies from October 2010 to December 2012; the non-executive director of Shenyin & Wanguo Securities Co., Ltd. from November 2010 to December 2012; deputy general manager of Shenyin & Wanguo Securities Co., Ltd. From December 2012 to January 2015; the chairman of the board of directors of Shenyin & Wanguo Alternative Investment Co., Ltd. (申銀萬國創新證券投資有限公司) from April 2013 to September 2016; the deputy general manager of Shenwan Hongyuan Securities Co., Ltd. from January 2015 to August 2016; the chairman of the board of directors of Shenyin & Wanguo Futures Co., Ltd. from December 2015 to October 2016; the chairman of the board of directors of Shenyin & Wanguo Investment Co., Ltd. from March 2016 to September 2016; and served in the securities institution management division/insurance institution management division of Central Huijin Investment Ltd. as designated board member for invested companies since October 2016. He

has been a non-executive Director of Shenwan Hongyuan Group Co., Ltd. and a non-executive director of Shenwan Hongyuan Securities Co., Ltd. since February 2017.

Mr. Chen obtained the bachelor degree of agricultural economics from Nanjing Agricultural College* (南京農學院, now known as Nanjing Agricultural University) in July 1984, and the master's degree in business administration from Kunming University of Science and Technology in April 2002.

Mr. Wang Honggang (王洪剛), aged 44, is our non-executive Director. Mr. Wang served as the accountant of the budgeting and finance department of Shanghai Jiushi Corporation* (上海久事公司) from July 1998 to February 2001. From March 2001 to November 2001, he worked in the capital management department of Shanghai Jiushi Corporation. From December 2001 to February 2004, he continued working in the budgeting and finance department of Shanghai Jiushi Corporation. From March 2004 to February 2005, he served as the assistant to manager of capital management department of Shanghai Jiushi Corporation. He successively served as the senior manager, deputy manager of the finance management department of Shanghai Jiushi Corporation from March 2005 to May 2015, the manager of the planning and finance department of Shanghai Juss International Events Management Company Limited* (上海久事國際賽事管理有限公司) from April 2008 to October 2009, the director of Shanghai Shen-Tie Investment Co., Ltd. since March 2012, the general manager of the finance management department of Shanghai Jiushi Corporation from May 2015 to October 2015, general manager of the finance management department of Shanghai Jiushi (Group) Co., Ltd. from October 2015 to February 2017, the chief supervisor of Shanghai Jiushi Investment Management Co., Ltd.* (上海久事投資管理有限公司) from December 2015 to April 2017. He has been the non-executive Director of Shenwan Hongyuan Group Co., Ltd. since September 2016. He served as the executive deputy general manager of Shanghai Shen-Tie Investment Co., Ltd. from February 2017 to November 2017 and general manager of Shanghai Shen-Tie Investment Co., Ltd. since November 2017, and the vice-president of the board of supervisors of Jinghu Expressway Railway Company Limited since November 2018.

Mr. Wang obtained the bachelor's degree in economics from Shanghai University of Finance and Economics in June 1998 and the MBA degree from Shanghai Jiao Tong University in March 2008.

Mr. Wang Fengchao (王鳳朝), aged 54, is our non-executive Director. Mr. Wang served as the vice chairman of the board and member of the standing committee of the Party Committee of Sichuan Changhong Electronic Group Co., Ltd. (四川長虹電子集團有限公司), and vice chairman of the board of directors, general manager and the member of the standing committee of the Party Committee of Sichuan Changhong Electric Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600839) from July 2004 to September 2005; the deputy mayor of Neijiang, Sichuan Province from September 2005 to October 2007; the deputy head and member of the standing committee of the Party Committee of State-owned Assets Supervision and Administration Commission of Sichuan Province from October 2007 to August 2010; the vice chairman of the board of directors, deputy secretary of the Party Committee and general manager of Sichuan Airlines Group Co., Ltd. from August 2010 to December 2013; the chairman of the board of directors and secretary of the Party Committee of Sichuan Airlines Group Co., Ltd. from December 2013 to December 2015; the chairman of the board of directors and secretary of the Party Committee of Sichuan Development Holding Co., Ltd. since June 2015; the chairman of the board of directors and secretary of the Party Committee of Sichuan Financial Holding Group Co., Ltd. since February 2017; the co-chairman of the board of the general association of Sichuan entrepreneurs in Sichuan Province since February 2017; non-executive Director of Shenwan Hongyuan Group Co., Ltd. since January 2019.

Mr. Wang obtained a bachelor's degree in engineering from the mechatronic department of Chengdu Institute of Radio Engineering* (成都電訊工程學院, now known as University of Electronic Science and Technology of China) in July 1986 majoring in special machinery and equipment for wireless, a master's degree in management from University of Electronic Science and Technology of China in September 2005 majoring in business management, and a doctorate degree in management from University of Electronic Science and Technology of China in September 2012 majoring in business management. Mr. Wang is a senior engineer.

Ms. Ge Rongrong (葛蓉蓉), aged 51, is our non-executive Director. Ms. Ge served as a staff member in the finance division of foreign trade and economic bureau in Huangshan City from July 1989 to August 1991; a lecturer for the School of Economics and Management in Beijing University of Technology from July 1994 to August 1998; an associate research fellow in the research department of Dapeng Securities Company (Beijing)* (大鵬證券公司(北京)) from August 1998 to September 2001; director officer of the department of public offering supervision of the CSRC from September 2001 to March 2005; senior manager and deputy head of the Department of China Construction Bank Shareholding Management of Central Huijin Investment Ltd. successively from March 2005 to September 2007; deputy officer and officer of China Construction Bank Shareholding Management Division of the Banking Department at Central Huijin Investment Ltd. successively from September 2007 to February 2011; employee supervisor of the board of supervisors of Central Huijin Investment Ltd. from September 2008 to November 2011; designated board member of the Banking Department at Central Huijin Investment Ltd. from February 2011 to January 2012; non-executive director of Industrial and Commercial Bank of China Limited from January 2012 to June 2017; division chief and director of Research Support Division of Banking Institutions Department I of Central Huijin Investment Ltd. successively from January 2013 to July 2017; deputy officer and managing director of Banking Institutions Department I of Central Huijin Investment Ltd. successively from June 2015 to December 2017. She has been the independent director of ICBC Credit Suisse Asset Management Co. Ltd. since March 2018 and the non-executive Director of Shenwan Hongyuan Group Co., Ltd. since March 2019.

Ms. Ge obtained a bachelor's degree in engineering from Zhejiang University in July 1989 majoring in materials science and engineering, a master's degree in economics from Beijing Normal University in June 1994 majoring in political economics and a doctorate degree in management from the School of Management of University of Science and Technology of China in December 2006. Ms. Ge is a senior economist.

Mr. Ren Xiaotao (任曉濤), aged 48, is our non-executive Director. Mr. Ren served as a teacher of the division of senior high school mathematics at Jian Ping High School in Shanghai from July 1994 to August 1999; actuarial analyst and actuarial manager of the finance department and actuarial senior manager of the actuarial department of China Pacific Insurance (Group) Co., Ltd. successively from July 2002 to September 2010; senior deputy manager of the non-banking division of Central Huijin Investment Ltd. from September 2010 to February 2012; senior deputy manager of the securities institution management division/insurance institution management division of Central Huijin Investment Ltd. from February 2012 to July 2014. He has been the division chief, senior deputy manager, senior manager and director of Insurance Institutions Equity Department II of the securities institution management division/insurance institution management division of Central Huijin Investment Ltd. since July 2014, and worked as the deputy general manager of the development and planning department of China Continent Property & Casualty Insurance Company Ltd. from February 2015 to August 2015; deputy general manager of the assets management department of China

Continent Property & Casualty Insurance Company Ltd. and deputy general manager of China (Shanghai) Pilot Free Trade Zone Branch from September 2015 to December 2015. Mr. Ren has been the non-executive Director of Shenwan Hongyuan Group Co., Ltd. since March 2019.

Mr. Ren obtained a bachelor's degree in science from Northeast Normal University in June 1994, and a master's degree in economics from the Central University of Finance and Economics in June 2002 majoring in finance.

Ms. Ye Mei (葉梅), aged 53, is our independent non-executive Director. Ms. Ye served in McKinsey & Company as a senior expert from February 2003 to May 2013. She was an independent non-executive director of Shenyin & Wanguo Securities Co., Ltd. from December 2012 to January 2015. She has served as an independent non-executive director of Bekaert SA (a company listed on Euronext Brussels, stock code: BEKB) since May 2014 and an independent non-executive Director of Shenwan Hongyuan Group Co., Ltd. since January 2015. Ms. Ye is currently a member of the board of directors of trustees of New York Military Academy, an advisor of trustees of Oxford University Rhodes Trust (Rhodes Scholarships) and a member of the Advisory Committee of the Globe Project Center of Stanford University.

Ms. Ye obtained a bachelor's degree in laws in international politics from Fudan University in July 1986, and the master's degree in public administration from the University of North Carolina at Chapel Hill in May 1993.

Mr. Xie Rong (謝榮), aged 67, is our independent non-executive Director. Mr. Xie successively served in positions such as the lecturer, associate professor, professor, instructor of doctorate students and associate head of the department of Accounting School of Shanghai University of Finance and Economics from December 1985 to December 1997, partner of KPMG Huazhen LLP (Shanghai) from December 1997 to October 2002. From October 2002 to November 2017, he served as a professor of Shanghai National Accounting Institute, during which, he served as a deputy dean of Shanghai National Accounting Institute from October 2002 to August 2012. He has been non-executive director of SAIC Motor Corporation Limited (a company listed on Shanghai Stock Exchange, stock code: 600104) from June 2008 to June 2018. He served as an independent non-executive director of Shenyin & Wanguo Securities Co., Ltd. from December 2012 to January 2015; independent non-executive director of Shanghai Baosight Software Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 600845) from April 2010 to March 2016; independent non-executive director of China Everbright Bank Company Limited (a company listed on Hong Kong Stock Exchange, stock code: 6818; and a company listed on Shanghai Stock Exchange, stock code: 601818) since January 2013; independent non-executive director of China Traditional Chinese Medicine Holdings Co. Limited (a company listed on Hong Kong Stock Exchange, stock code: 570) from February 2013; independent non-executive Director of Shenwan Hongyuan Group Co., Ltd. since January 2015; independent non-executive director of Shanghai Bairun Investment Holding Group Co., Ltd (a company listed on Shenzhen Stock Exchange, stock code: 002568) since June 2015 and independent non-executive director of Shanghai International Trust Co., Ltd. since May 2016. He has been an independent non-executive director of Baoshan Iron & Steel Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 600019) since May 2018.

Mr. Xie obtained the bachelor's degree in economics from Shanghai College of Finance and Economics in July 1983, the master's degree in economics from Shanghai University of Finance and Economics in March 1986 and the doctorate degree in economics from Shanghai University of Finance and Economics in January 1993.

Ms. Huang Danhan (黃丹涵), aged 70, is our independent non-executive Director. Ms. Huang successively served as deputy researcher and deputy head of the Policy Research Department and the Department of Treaty and Law of Ministry of Foreign Economics Relations and Trade (now Ministry of Commerce) from July 1987 to July 1992; member of the First Session of the Public Offering Examination and Approval Commission under the CSRC from May 1993 to May 1995; attorney and partner of Beijing Bridge Law Office (北京市博宇律師事務所, now known as Sinobridge PRC Lawyers) from July 1993 to July 1999; general manager of the legal department of China Construction Bank Corporation from August 1999 to March 2001; chief counsel and head of the legal department of China Galaxy Securities Co., Ltd. from March 2001 to September 2004; independent non-executive director of Bank of China Limited (a company listed on the Shanghai Stock Exchange, stock code: 601988; and a company listed on the Hong Kong Stock Exchange, stock code: 3988) from November 2007 to September 2013; independent non-executive director of Shenyin & Wanguo Securities Co., Ltd. from December 2012 to January 2015. She has been an independent non-executive Director of Shenwan Hongyuan Group Co., Ltd. since January 2015, independent non-executive director of DBS Bank (China) Limited since February 2016, and senior consultant of Beijing FenXun Partners since July 2016. Ms. Huang served as a senior expert and the chief expert in service and trading for EU-China Trade Project. Ms. Huang also served as PRC director of West African Development Bank.

Ms. Huang obtained the bachelor's degree in English from the Foreign Language School of Central China Normal University in January 1982, the master's degree in international law from the Law School of the University of Strasbourg, France in March 1984, and the State Doctorate degree in law in March 1987.

Ms. Yang Qiumei (楊秋梅), aged 54, is our independent non-executive Director. Ms. Yang served as an executive of mainland business division of Hong Kong Exchanges and Clearing Limited from October 2010 to April 2013, executive vice-president of Asia Pacific Region of the Investment Company Institute from May 2013 to June 2014; chief executive president of Asia Pacific Region of the Investment Company Institute from July 2014 to September 2018, member of the Hang Seng Index Advisory Committee since January 2019, and she acted as independent non-executive Director of Shenwan Hongyuan Group Co., Ltd since February 2019 till now. Ms. Yang has many years of experience in the supervision of China's securities industry. She has served as a vice-director of the Department of International Affairs, vice-director of the Department of Fund and Intermediary Supervision and the member of the planning and development committee of the China Securities Regulatory Commission. Ms. Yang also served as a member of senior management committee and vice-executive of market development division of Hong Kong Exchanges and Clearing Limited.

Ms. Yang obtained a bachelor's degree in economics from international economic department of Peking University in July 1987, a master's degree in economics from international economic department of Peking University in January 1990 and a doctorate degree of philosophy from University of Illinois in USA in October 1996.

SUPERVISORS

The following table shows the key information of our Supervisors. All of our Supervisors meet the qualification requirements under relevant PRC laws and regulations for their positions.

Name	Age	Date of joining the Group	Date of appointment as Supervisor	Position	Responsibility
Mr. Yang Yucheng (楊玉成)	48	June 2008	February 11, 2015	Chairman of the Board of Supervisors	Responsible for organizing the normal operation of the Board of Supervisors, supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions
Mr. Wen Feng (溫鋒)	51	February 2015	February 11, 2015	Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions
Mr. Gong Bo (龔波)	53	December 2012	December 11, 2012	Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions
Mr. Wei Yong (衛勇)	47	September 2016	September 12, 2016	Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions
Mr. Huang Qi (黃琦)	53	August 2004	May 14, 2015	Employee Representative Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions
Mr. Wang Yanyang (王艷陽)	48	July 1997	May 16, 2016	Employee Representative Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions

Name	Age	Date of joining the Group	Date of appointment as Supervisor	Position	Responsibility
Mr. Xie Kun (謝鯤)	41	May 2007	May 14, 2015	Employee Representative Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions
Mr. An Gejun (安歌軍)	51	March 2013	May 14, 2015	Employee Representative Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions

Mr. Yang Yucheng (楊玉成), aged 48, is our chairman of the Board of Supervisors. Mr. Yang had served as section chief of the Office of Verification and Evaluation of Assets of the Ministry of Finance and the National Administration of State Owned Assets from April 1995 to June 1998; assistant of special inspector of General Administration of Special Inspector of the State Council, full-time supervisor dispatched by the Commission for Enterprise Affairs under the CCCPC and the Board of Supervisors in the Key Large State-owned Enterprises from June 1998 to June 2002; director of the comprehensive affairs department and deputy chairman of the labor union of China Netcom Corporation Limited* (中國網絡通信有限公司) from July 2002 to January 2003; office head and assistant to executive president of China National Investment & Guaranty Co., Ltd. from February 2003 to May 2008; member of the Party Committee and secretary of the commission for discipline inspection of Hong Yuan Securities Co., Ltd. from June 2008 to September 2009; member of the Party Committee, deputy general manager and secretary of the commission for discipline inspection of Hong Yuan Securities Co., Ltd. from September 2009 to September 2012; member of the Party Committee, chairman of the board of supervisors and secretary of the commission for discipline inspection of Hong Yuan Securities Co., Ltd. from September 2012 to January 2015. He has held the position of member of the Party Committee of Shenwan Hongyuan Group Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd. since December 2014, chairman of the Board of Supervisors of Shenwan Hongyuan Group Co., Ltd. since February 2015, and the supervisor of Shenwan Hongyuan Financing Services Co., Ltd.* (申萬宏源證券承銷保薦有限責任公司) since January 2015.

Mr. Yang obtained a bachelor's degree in Engineering from the Automatic Control School of Gansu University of Technology* (甘肅工業大學, now known as Lanzhou University of Technology) in June 1993 majoring in industrial electrics and automation, the master's degree in economics of Renmin University of China in January 2000 majoring in world economy, and a master's degree of EMBA from Cheung Kong Graduate School of Business majoring in EMBA in September 2014.

Mr. Wen Feng (溫鋒), aged 51, is our Supervisor. Mr. Wen had served as a director, deputy general manager and secretary to the board of Sisha Co., Ltd.* (四砂股份有限公司) from September 1998 to June 2000; principal of the direct investment business preparation team of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange, stock code: 6099; and a company listed on Shanghai Stock Exchange, stock code: 600999) from December 2006 to July 2009; general manager of China Merchants Zhiyuan Capital Investment Co., Ltd.* (招商致遠資本投資有限公司) from August 2009 to May 2013. Mr. Wen has been the general manager of Ganzhou

Merchants Zhiyuan No.1 Equity Investment Management Co., Ltd.* (贛州招商致遠壹號股權投資管理有限公司) since June 2013, the executive partner representative of Ganzhou Merchants Zhiyuan No.1 Equity Investment Partners Inc. (limited partnership)* (贛州招商致遠壹號股權投資合夥企業（有限合夥）) since June 2013, the executive partner representative of Ganzhou Yishen Investment Partners Inc. (limited partnership)* (贛州壹申投資合夥企業（有限合夥）) since November 2013, supervisor of Shenwan Hongyuan Securities Co., Ltd. since January 2015, Supervisor of Shenwan Hongyuan Group Co., Ltd. since February 2015, general manager of Chizhou CMS Zhong An Equity Investment Management Co., Ltd.* (池州中安招商股權投資管理有限公司) since November 2015, executive partner representative of Chizhou CMS Zhong An Equity Investment Partners Inc. (limited partnership)* (池州中安招商股權投資合夥企業（有限合夥）) since November 2015, supervisor of Taikang Insurance Group Inc. since September 2018, and director of Shanghai Dobe Cultural & Creative Industry Development (Group) Co., Ltd.* (上海德必文化創意產業發展（集團）股份有限公司) since September 2018.

Mr. Wen obtained the bachelor's degree in economics from Xiamen University in July 1990 majoring in accounting and the MBA degree from China Europe International Business School in September 2007.

Mr. Gong Bo (龔波), aged 53, is our Supervisor. Mr. Gong had served as staff of the supply and distribution division of Yiwu Petroleum Pump Plant* (義烏市石油油泵廠) from September 1988 to October 1991; section member of Yiwu Foreign Economy and Trade Commission from October 1991 to October 1997; head of the Hangzhou Office of Zhejiang China Commodities City Group* (浙江中國小商品城集團) (a company listed on Shanghai Stock Exchange, stock code: 600415) from October 1997 to October 2004; manager of the securities department of Zhejiang China Commodities City Group Company Limited* (浙江中國小商品城集團股份有限公司) from October 2004 to April 2012. He has held the position of general manager of Huishang Investment Management Branch* (惠商投資管理分公司) of Zhejiang China Commodities City Group Co., Ltd. since April 2012. He was a supervisor of Shenyin & Wanguo Securities Co., Ltd. from December 2012 to January 2015. Besides, Mr. Gong has been general manager of Yiwu Huishang Zijing Equity Investment Company Limited* (義烏惠商紫荊股權投資有限公司) since April 2014, director of Mashang Consumer Finance Co., Ltd. from April 2015 to October 2017, Supervisor of Shenwan Hongyuan Securities Co., Ltd. and Supervisor of Shenwan Hongyuan Group Co., Ltd. since January 2015, director of Zhejiang Chouzhou Financial Leasing Co., Ltd. since June 2016, director of Yiwu Huishang Zijing Capital Management Company Limited* (義烏惠商紫荊資本管理有限公司) since August 2016, and director of Yiwu China Commodities City Investment Management Co., Ltd.* (義烏中國小商品城投資管理有限公司) since May 2017.

Mr. Gong obtained the bachelor's degree of engineering in science of metallic materials and engineering of Zhejiang University in July 1988, and the MBA degree from Macau University of Science and Technology in January 2006.

Mr. Wei Yong (衛勇), aged 47, is our Supervisor. Mr. Wei had successively served as deputy section chief, section chief and researcher (deputy-director level) of the comprehensive affairs division, and deputy director of the economy division of the Research Office of CPC Shanghai Committee from March 1996 to October 2003; special officer of the strategy committee under the board of directors of Shanghai Automotive Industry Corporation (Group) from October 2003 to December 2004; deputy head of the president office, executive director of the capital operation department, securities business representative and director of the board of directors office of SAIC Motor Corporation Limited (a company listed on Shanghai Stock Exchange, stock code: 600104) from December 2004 to August

2015. He has held the positions of director of Sailing Capital International (Shanghai) Co., Ltd. since March 2012; director of SAIC Venture Capital Corporation* (上海汽車創業投資有限公司) and SAIC Equity Investment Company Limited* (上海汽車集團股權投資有限公司) since September 2014; director of the board of directors office, executive director of the securities business department and representative of securities business of SAIC Motor Corporation Limited from August 2015 to October 2016; Supervisor of Shenwan Hongyuan Group Co., Ltd. since September 2016; acting chief financial officer, general manager of the financial business department and general manager of the securities business department of SAIC Motor Corporation Limited, director of SAIC Finance Corporation Limited* (上海汽車集團財務有限責任公司), chairman of the board of directors of SAIC Insurance Sales Company Limited* (上海汽車集團保險銷售有限公司), chairman of the board of directors of SAIC-GMAC* (上海通用汽車金融有限責任公司), director and general manager of SAIC Motor HK Investment Limited since October 2016; director of Shanghai Chexiangjia Automotive Technology Service Co., Ltd.* (上海車享家汽車科技服務有限公司) and supervisor of Time SAIC Power Battery Co., Ltd.* (時代上汽動力電池有限公司) since June 2017; secretary of the board of directors of SAIC Motor Corporation Limited since June 2018.

Mr. Wei obtained the bachelor's degree of economics from School of Finance of Shanghai University of Finance and Economics in June 1993 majoring in insurance and the master's degree of economics from Shanghai University of Finance and Economics in December 1995 majoring in money and banking.

Mr. Huang Qi (黃琦), aged 53, is our employee representative Supervisor. Mr. Huang had served as deputy director of the propaganda department, deputy director of office and office director of the Planning and Design Institute of Coal Industry* (煤炭工業規劃設計總院) from August 1986 to January 1998; office director of Beijing Coal Design Institute* (北京煤炭設計研究院) from February 1998 to January 2000; director of the human resources division of China Coal International Engineering Design Research Institute* (中煤國際工程設計研究總院) from February 2000 to February 2004; general manager of the human resources headquarter, director of the supervision office and director of the Party Committee organization department of Hong Yuan Securities Co., Ltd. successively from August 2004 to February 2011; vice chairman of the board of directors of Hongyuan Futures Co., Ltd. from March 2011 to November 2017; director of the general manager office of Hong Yuan Securities Co., Ltd. from June 2013 to April 2015. He has been director of the general manager office of Shenwan Hongyuan Group Co., Ltd. since April 2015, employee representative Supervisor of Shenwan Hongyuan Group Co., Ltd. since May 2015 and general manager of the Beijing Branch of Shenwan Hongyuan Group Co., Ltd. since June 2017.

Mr. Huang obtained the bachelor's degree of engineering from China Institute of Mining and Technology* (中國礦業學院, now known as China University of Mining and Technology) in July 1986 majoring in mining machinery design, and the master's degree of economics from Nankai University in June 2004 majoring in world economy.

Mr. Wang Yanyang (王艷陽), aged 48, is our employee representative Supervisor. Mr. Wang had served as a staff in the finance division of Beijing Urban Construction Archives* (北京市城建檔案館) from July 1994 to December 1996; staff in the finance division of trust and securities business at headquarter of the China Construction Bank* (中國建設銀行總行) from January 1997 to March 1998; deputy manager of the finance department of Xinjiang Hongyuan Trust Investment Co., Ltd.* (新疆宏源信託投資股份有限公司) from July 1997 to March 1998; manager of the finance department of the Beijing Office, manager of the risk control division of securities investment department, manager of

the risk control division of the institutional management headquarter and deputy general manager of the Guilin Branch of Hong Yuan Securities Co., Ltd. from March 1998 to June 2002; deputy general manager of the Beijing Beiwa Road Securities Branch of Hong Yuan Securities Co., Ltd. from June 2002 to June 2008; deputy general manager of the audit headquarter of Hong Yuan Securities Co., Ltd. from June 2008 to October 2010; general manager of the Beijing Finance Street Securities Branch of Hong Yuan Securities Co., Ltd. from November 2010 to March 2012; general manager of the investigation and audit department of Hong Yuan Securities Co., Ltd. from March 2012 to June 2015; joint general manager of the investigation and audit headquarter of Shenwan Hongyuan Securities Co., Ltd. from June 2015 to April 2016. He has been general manager of the investigation and audit department of Shenwan Hongyuan Group Co., Ltd. since April 2016, employee representative Supervisor of Shenwan Hongyuan Group Co., Ltd. since May 2016, supervisor of Shenwan Hongyuan Investment Co., Ltd.* (申萬宏源投資有限責任公司) since November 2017 and supervisor of Hongyuan Huizhi Investment Co., Ltd.* (宏源匯智投資有限公司) since December 2017.

Mr. Wang obtained a bachelor's degree in engineering from Shenyang University of Technology in July 1994 majoring in accounting.

Mr. Xie Kun (謝鯤), aged 41, is our employee representative Supervisor. Mr. Xie had served as a staff in the legal affairs department of the Shanghai management headquarter of Hengtai Securities Limited from January 2004 to May 2007; senior manager of the risk management department of Hong Yuan Securities Co., Ltd. from May 2007 to December 2007; senior manager of the legal and compliance department of Hong Yuan Securities Co., Ltd. from January 2008 to April 2010; assistant to general manager of legal and compliance headquarter of Hong Yuan Securities Co., Ltd. from April 2010 to September 2012; deputy general manager of the legal and compliance department of Hong Yuan Securities Co., Ltd. from September 2012 to May 2015; general manager of the legal and risk control department of Shenwan Hongyuan Group Co., Ltd. from May 2015 to February 2017. He has been employee representative Supervisor of Shenwan Hongyuan Group Co., Ltd. since May 2015, and deputy director (general manager of the headquarter level) of the compliance and risk management center and general manager of the legal and compliance headquarter of Shenwan Hongyuan Securities Co., Ltd. since February 2017.

Mr. Xie obtained a bachelor's degree in economics from Chongqing College of Commerce* (重慶商學院, now known as Chongqing Technology and Business University) in July 2000 majoring in trade and economy, and a master's degree in Laws from East China College of Political Science and Law* (華東政法學院, now known as East China University of Political Science and Law) in June 2003 majoring in law.

Mr. An Gejun (安歌軍), aged 51, is our employee representative Supervisor. Mr. An had served as customer manager of Dewai Street Branch of Beijing Branch of Guotai Junan Securities Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 2611); a company listed on Shanghai Stock Exchange, stock code: 601211) from December 2001 to November 2002; senior business manager of investment management department and asset management department of China National Environmental Protection Corporation* (中國環境保護公司) from November 2002 to November 2003; business manager of China Shenhua Energy Company Limited (a company listed on Shanghai Stock Exchange, stock code: 601088; and a company listed on Hong Kong Stock Exchange, stock code: 1088) from December 2003 to September 2008; director, secretary to the board of directors and assistant to general manager of Shenhua Australia Holdings Pty Limited* (神華澳大利亞控股有限公司) from September 2008 to March 2013; deputy general manager of the Beijing Branch of

Shenyin & Wanguo Securities Co., Ltd. and deputy general manager of the Beijing Branch of Shenwan Hongyuan Securities Co., Ltd. from March 2013 to April 2015 successively. He has been the deputy general manager of Shenwan Hongyuan Industrial Investment Management Company Limited* (申萬宏源產業投資管理有限責任公司) since April 2015, and employee representative Supervisor of Shenwan Hongyuan Group Co., Ltd. since May 2015.

Mr. An graduated from Harbin Ship Engineering Institute* (哈爾濱船舶工程學院) in July 1987 majoring in chemical engineering & machinery, obtained the master's degree from Shanghai Jiao Tong University in March 2001 majoring in philosophy of scientific technology. He also graduated as doctoral candidate from Northwest University in June 2012 majoring in world economy.

SENIOR MANAGEMENT

The following table shows the key information of our senior management:

Name	Age	Date of joining the Group	Date of appointment as senior management	Position	Responsibility
Mr. Chen Liang (陳亮)	51	October 1994	January 2015	General manager	Takes charge of the general operation and management; specifically chairs the affairs of the multi-dimensional financial department, the office of the general manager, the strategy management department and the Beijing Branch; assistantly chairs the affairs of human resources department.
Mr. Yang Changyun (陽昌雲)	49	September 2009	January 2015	Deputy general manager, chief financial officer, Secretary to the Board	Participates in making decisions on significant issues of the Company including its operation; specifically chairs the affairs of the investment management department, the office of the Board, the planning and finance department, Shenwan Hongyuan Investment Co., Ltd.* (申萬宏源投資有限公司) and Hongyuan Huizhi.
Mr. Liu Yue (劉躍)	51	September 2000	August 2016	Assistant to general manager	Participates in making decisions on significant issues of the Company including its operation; specifically chairs the affairs of the legal risk management department, the investigation and audit department and Shenwan Hongyuan Industrial Investment Management Company Limited* (申萬宏源產業投資管理有限責任公司).

Mr. Chen Liang (陳亮) is our general manager. For biography of Mr. Chen Liang, please refer to "Directors" in this section.

Mr. Yang Changyun (陽昌雲), aged 49, is our deputy general manager, chief financial officer and secretary to the Board. Mr. Yang had served as lecturer of the Department of Accounting of Ningbo University from July 1993 to September 1999; project manager of the investment banking division of Guosen Securities Co., Ltd.* (國信證券股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002736) from May 2000 to November 2000; manager of the listed company division of Shanghai Stock Exchange from February 2001 to March 2007; secretary to the board of directors and chief financial officer of Hong Yuan Securities Co., Ltd. from September 2009 to January 2015 successively; non-executive director of Hongyuan Huizhi Investment Co., Ltd.* (宏源匯智投資有限公司) from April 2012 to November 2017; and chairman of the board of directors of Hongyuan Huifu Capital Co., Ltd.* (宏源匯富創業投資有限公司) from October 2013 to October 2018. Mr. Yang has held the positions of deputy general manager, chief financial officer and secretary to the Board of Shenwan Hongyuan Group Co., Ltd. since January 2015, executive director of Shenwan Hongyuan Investment Co., Ltd. since January 2015, and director and chairman of the board of directors of Hongyuan Huizhi Investment Co., Ltd.* (宏源匯智投資有限公司) since July 2018. Mr. Yang served as the audit manager of Pan-China Certified Public Accountants LLP.

Mr. Yang obtained the bachelor's degree in economics from Lanzhou University of Finance and Economics in June 1993, the master's degree in economics from the Research Institute for Fiscal Science of Ministry of Finance (now known as Chinese Academy of Fiscal Sciences) in July 1999 and the doctorate degree in management from the Research Institute for Fiscal Science of Ministry of Finance (now known as Chinese Academy of Fiscal Sciences) in June 2011.

Mr. Liu Yue (劉躍), aged 51, is our assistant to general manager. Mr. Liu had served as an engineer of Harbin Power Station Import and Export Corporation* (哈爾濱電站進出口公司) from March 1992 to February 1994; deputy manager (person in charge) of the Securities Branch of Beijing Jinsong of Shenyin & Wanguo Securities Co., Ltd. from September 2000 to March 2003; manager of the Securities Branch of Beijing Jinsong Ninth District of Shenyin & Wanguo Securities Co., Ltd. from March 2003 to January 2007; manager of the Securities Business Branch of Beijing Anding Road of Shenyin & Wanguo Securities Co., Ltd. from January 2007 to June 2010; deputy general manager and general manager of Beijing headquarter of Shenyin & Wanguo Securities Co., Ltd. from April 2007 to December 2009 successively; general manager of Beijing Branch of Shenyin & Wanguo Securities Co., Ltd. from December 2009 to January 2015; chief market officer of Shenyin & Wanguo Securities Co., Ltd. from November 2011 to January 2015; general manager of Beijing Branch of Shenwan Hongyuan Securities Co., Ltd. from January 2015 to June 2016; assistant to general manager of Shenwan Hongyuan Securities Co., Ltd. from September 2015 to August 2016. He has held the positions of assistant to general manager of Shenwan Hongyuan Group Co., Ltd. since August 2016, and executive director of Shenwan Hongyuan Industrial Investment Management Company Limited since December 2016.

Mr. Liu obtained the bachelor's degree in industry management engineering from Harbin Institute of Technology in July 1989, the master's degree in technology economics from Harbin Institute of Technology in March 1992, and the EMBA degree from Peking University in July 2012.

Save as disclosed above, none of our Directors, Supervisors and senior management held any directorship in any public companies the shares of which are listed in Hong Kong or overseas stock markets during the three years prior to the date of this document.

To the knowledge, information and belief of the Board, our Directors, Supervisors and senior management do not have any relationship amongst them.

JOINT COMPANY SECRETARIES

Mr. Yang Changyun (陽昌雲) was appointed as one of the joint company secretaries of the Company in January 2019, effective from the **[REDACTED]**. At the same time, Mr. Yang is also a member of the senior management of the Company. For the details of the his profile, see "—Senior Management" in this section.

Ms. Fok Po Yi (霍寶兒), another joint company secretary of our Company, was appointed in January 2019, effective from the **[REDACTED]** of our H Shares. Ms. Fok is a vice president of SWCS Corporate Services Group (Hong Kong) Limited. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, Ms. Fok has worked for an international accounting firm and the Lisiting Division of the Stock Exchange of Hong Kong Limited for nearly thirteen years. Ms. Fok is a member of the Hong Kong Institute of Certified Public Accountants. She holds a bachelor of business administration degree with honors majoring in accountancy from the Chinese University of Hong Kong and a master's degree in law (Corporate and financial law) from the University of Hong Kong.

COMPETING INTERESTS

As of the Latest Practicable Date, none of our Directors had interests in business, which competes or is likely to compete, either directly or indirectly with our business.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, the Company intends to comply with the corporate governance requirements under the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules after the **[REDACTED]**.

BOARD COMMITTEES

In accordance with relevant PRC laws, regulations, the Articles and the corporate governance practice prescribed in the Hong Kong Listing Rules, we have formed four board committees, namely the Strategy Committee, the Remuneration and Nomination Committee, the Audit Committee and the Risk Control Committee.

Strategy Committee

The Strategy Committee of the Company consists of three Directors, namely Mr. Chu Xiaoming, Mr. Chen Liang and Mr. Chen Jianmin. Mr. Chu Xiaoming serves as chairman of the committee. The main responsibilities of the Strategy Committee of the Company include (but are not limited to):

- analyzing and providing recommendations on the development strategies of the Company;
- analyzing and providing recommendations on major investment and financing as well as merger and acquisition related matters;

- analyzing and providing recommendations on other major matters affecting the development of the Company; and
- other responsibilities authorized by the Board.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Company consists of four Directors, namely Ms. Ye Mei, Mr. Chu Xiaoming, Mr. Xie Rong and Ms. Yang Qiumei. Ms. Ye Mei serves as chairman of the committee. The main responsibilities of the Remuneration and Nomination Committee of the Company include (but are not limited to):

- reviewing and advising on the selection criteria and procedures for the selection of Directors and senior management, identifying candidates for qualified Directors and senior management, reviewing and making recommendations on the qualifications of the candidates for directorship and senior management;
- reviewing and making recommendations on the assessment and remuneration management system for Directors and senior management;
- assessing the Directors and senior management and making recommendations; and
- other responsibilities authorized by the Board.

Audit Committee

The Audit Committee of the Company consists of four Directors, namely Mr. Xie Rong, Ms. Ye Mei, Ms. Huang Danhan and Mr. Wang Honggang. Mr. Xie Rong serves as the chairman of the committee. The main responsibilities of the Audit Committee of the Company include (but are not limited to):

- supervising the annual audit work, making judgment on the authenticity, accuracy and completeness of the information in the audited financial reports before submitting to the Board for review;
- providing recommendations on engaging or changing external auditors, and supervising the performance of external auditors;
- responsible for the communication between internal auditors and external auditors; and
- other responsibilities authorized by the Board.

Risk Control Committee

The Risk Control Committee of the Company consists of three Directors, namely Mr. Chen Jianmin, Ms. Huang Danhan and Mr. Wang Honggang. Mr. Chen Jianmin serves as the chairman of the committee. The main responsibilities of the Risk Control Committee include (but are not limited to):

- reviewing the overall objectives and fundamental policies of risk management;
- reviewing the establishment and the duties of the risk management divisions;
- assessing the risks associated with significant business decisions and the solutions to address significant risks;

- reviewing the effectiveness of the Group's risk management and internal control systems; and
- other responsibilities authorized by the Board.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors, Supervisors and senior management members who receive emolument from the Company are remunerated in forms of salaries, allowances, contribution to pension schemes, discretionary bonuses and others.

In 2016, 2017 and 2018, the total remuneration paid to our Directors amounted to approximately RMB10.6 million, RMB10.9 million and RMB7.8 million, respectively.

In 2016, 2017 and 2018, the total remuneration paid to our Supervisors amounted to approximately RMB12.2 million, RMB11.9 million and RMB9.7 million, respectively.

In 2016, 2017 and 2018, the total remuneration paid to our key management personnel amounted to approximately RMB12.4 million, RMB5.5 million and RMB3.7 million, respectively.

In 2016, 2017 and 2018, none of the five highest paid individuals of the Company were Directors, Supervisors or senior management members. In 2016, 2017 and 2018, the total emoluments paid to the five highest paid individuals by the Group amounted to approximately RMB47.3 million, RMB109.3 million and RMB44.2 million, respectively.

Under the arrangement currently in force, the Company expects that the total remuneration (excluding year-end bonuses) to be paid to our Directors and Supervisors by the Company for the year ending December 31, 2019 will be approximately RMB5.9 million and RMB6.3 million, respectively.

During the Track Record Period, no fees were paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join us or as compensation for loss of office. None of the Directors or Supervisors waived any remuneration during the relevant period.

The remuneration of our Directors, Supervisors and senior management is determined with reference to the remuneration paid by comparable companies and the achievement of major operating indicators of the Company. Fixed remuneration is determined with reference to the remuneration data provided by the professional management consultation company and position of the Company among its major competitors.

Save as disclosed in this document, none of our Directors, Supervisors and senior management holds any interest in the H Shares and A Shares as set out in Part XV of the Securities and Futures Ordinance, as of the Latest Practicable Date. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiry, save as disclosed herein, there is no additional matter with respect to the appointment of the Directors and Supervisors that needs to be brought to the attention of the Shareholders, and there is no additional information relating to the Directors and Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

JOINT COMPLIANCE ADVISORS

We have agreed to appoint Shenwan Hongyuan Capital (H.K.) Limited and ABCI Capital Limited as our joint compliance advisors upon the **[REDACTED]** in compliance with Rules 3A.19 and 19A.05

of the Hong Kong Listing Rules. The material terms of the compliance advisors' agreement are as follows:

(i) Shenwan Hongyuan Capital (H.K.) Limited and ABCI Capital Limited shall act as our joint compliance advisors for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the **[REDACTED]** and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the **[REDACTED]**, or until the agreement is terminated, whichever is earlier;

(ii) the joint compliance advisors will provide us with certain services including proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;

(iii) the joint compliance advisors will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and

(iv) the joint compliance advisors will act as one of the key channels of communication of the Company with the Hong Kong Stock Exchange.

THE PARTY COMMITTEE

According to the Constitution of the Communist Party of China, the Company has established the Committee of Communist Party of Shenwan Hongyuan Group Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd. (the "**Party Committee**"), which plays a core leadership role in the Company. The Party Committee mainly assumes the following duties and responsibilities:

- Ensuring and supervising the implementation of policies and principles of the Party and the State, implementing significant strategies and decisions of the Party Central Committee and the State Council, as well as relevant key deployments of of higher-level Party organization;

- Strengthening its leadership and gate keeping role in the management of the process of selection and appointment of personnel, focusing on standards, procedure, evaluation, recommendation and supervision, insisting on the combination of the principles of management of cadres by the Party and the selection of operation managers by the Board and the right of employment by the operation managers;

- Considering and discussing the reform, development and stability of the Company, major operational and management issues and major issues concerning employee interests, and putting forth comments and suggestions. Supporting the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management in performing their duties in accordance with law and supporting the Congress of Employees in carrying out its work;

- Assuming the primary responsibility to run the Party comprehensively with strict discipline, leading the Company's ideological and political work, the United Front work, the cultural and ethical progress, corporate culture cultivation as well as the work of groups such as the Labor Union of the Company and the Communist Youth League,

leading the construction of the Party's working style and its clean and honest administration, and supporting the Party discipline inspection commissions in earnestly performing its supervisory responsibilities;

- Strengthening the building of the Company's grassroots Party organizations and of its contingent of Party members, giving full play to the role of Party branches as strongholds and to the role of Party members as pioneers and fine examples, and uniting and leading officials and employees bank-wide to devote themselves into the reform and development of the Company.

SHARE CAPITAL

Immediately before the [REDACTED]

As of the Latest Practicable Date, the registered capital of the Company was RMB22,535,944,560, comprising 22,535,944,560 A Shares of nominal value of RMB1.00 each, all of which are listed on the Shenzhen Stock Exchange.

Description of Shares	Number of Shares	Percentage of the issued share capital
A Shares in issue	22,535,944,560	100.00%

Upon completion of the [REDACTED]

Immediately following completion of the **[REDACTED]**, assuming that the **[REDACTED]** Option is not exercised, our share capital is as follows:

Description of Shares	Number of Shares	Percentage of the issued share capital
A Shares in issue	22,535,944,560	**[REDACTED]**
H Shares issued pursuant to the **[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Total	**[REDACTED]**	**100.00%**

Immediately following completion of the **[REDACTED]** and assuming that the **[REDACTED]** is fully exercised, our share capital is as follows:

Description of Shares	Number of Shares	Percentage of the issued share capital
A Shares in issue	22,535,944,560	**[REDACTED]**
H Shares issued pursuant to the **[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Total	**[REDACTED]**	**100.00%**

CLASSES OF SHARES

We have two classes of Shares, namely, A Shares and H Shares. Both H Shares and A Shares in issue are ordinary Shares in our share capital upon completion of the **[REDACTED]**. Shanghai-Hong Kong Stock Connect, activated on November 17, 2014, and Shenzhen-Hong Kong Stock Connect, initiated on December 5, 2016, have established a stock connect mechanism between the PRC and Hong Kong. A Shares of the Company can be subscribed and traded by PRC investors, qualified overseas institutional investors or qualified overseas strategic investors. If the A Shares of the Company are eligible securities under the Northbound Trading Link, they can also be subscribed and traded by Hong Kong and other overseas investors in accordance with the rules and limits of Shenzhen-Hong Kong Stock Connect. H Shares of the Company can be subscribed or traded by Hong Kong and other overseas investors and qualified domestic institutional investors. If the H Shares of the Company are eligible securities under the Southbound Trading Link, they can also be subscribed and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

All dividends on H Shares shall be paid in Hong Kong dollars whereas dividends on A Shares shall be paid in Renminbi. In addition to cash, dividends may also be distributed in the form of Shares. Holders of H Shares will receive share dividends in the form of H Shares, and holders of A Shares will receive share dividends in the form of A Shares.

A Shares and H Shares are regarded as different classes of Shares. The differences between the two classes of Shares, provisions on rights of class of Shareholders, dispatch of notices and financial

reports to Shareholders, dispute resolution, registration of Shares, the procedure of Share transfer and appointment of dividend receiving agents are set out in the Articles of Association, which is summarized in "Appendix V—Summary of Articles of Association."

Furthermore, any change or abrogation of the rights of class Shareholders shall be approved by way of a special resolution of the Shareholders' general meeting and by a class shareholders meeting of class Shareholders convened by the affected class of Shareholders. The circumstances under which a general meeting and a class meeting are required are summarized in "Appendix V—Summary of Articles of Association." However, the approval of separate classes of Shareholders is not required under the following circumstances: (i) issue of A Shares and H Shares of not more than 20% of existing A Shares and H Shares respectively, either separately or concurrently, in a period of 12 months, pursuant to an approval by a special resolution of the general meeting; (ii) plans of issuance of A Shares and H Shares upon establishment of the Company, provided that it is completed within 15 months from the date of an approval from the securities regulatory authority under the State Council or a specified period applicable provided under relevant requirements; or (iii) transferring of our domestic shares held by our domestic shareholders to foreign investors and listing on overseas stock exchange, or converting into overseas-listed shares, with the approval of the securities regulatory authorities under the State Council.

A Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made.

CONVERSION OF A SHARES INTO H SHARES

Upon completion of the **[REDACTED]**, the share capital of the Company will consist of both A Shares and H Shares. If any holder of A Shares wishes to transfer its A Shares to overseas investors for listing and trading on Hong Kong Stock Exchange as H Shares, while approvals from holders of A Shares and H Shares as separate classes are not required, it must comply with the relevant regulations prescribed by, and obtain the approval of, the relevant PRC securities regulatory authorities, including the CSRC, for the conversion of the A Shares and the approval of Hong Kong Stock Exchange for the listing and trading of the converted H Shares, as well as following the procedures set forth below:

(1) the holder of A Shares must obtain the requisite approval of the CSRC or the authorized securities approval authorities of the State Council for the conversion of all or part of its A Shares into H Shares;

(2) we may apply for the listing of all or any portion of our A Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion and we must obtain prior approval from the Hong Kong Stock Exchange before the converted H Shares can be listed and traded on the Hong Kong Stock Exchange;

(3) the holder of A Shares must request that we remove its A Shares from the A Share register, attaching the relevant documents of title together with the request;

(4) subject to obtaining the approval of the Board and the Hong Kong Stock Exchange, we would then instruct the H Share Registrar, with effect from a specified date, to issue the relevant holder H Share certificates for a specified number of H Shares;

(5) the specified number of A Shares to be converted to H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:

   a. our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificate; and

   b. the admission of the H Shares for trading in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;

(6) upon completion of the transfer and conversion, the shareholding of the relevant holder of A Shares in our A Share register will be reduced by such number of A Shares transferred and the number of H Shares registered will correspondingly be increased by the same number of H Shares; and

(7) in compliance with the Hong Kong Listing Rules, we will publicly announce the transfer and conversion not less than three days prior to the proposed effective date.

Following the relevant approvals been granted, the holder of A Shares shall submit an application to us to deregister the A Shares to be converted from the A Share register, together with the relevant document(s) of title. Upon completion of the relevant legal and regulatory procedures, we will instruct the H Share Registrar to issue certificate(s) of such number of H Shares to the relevant holders of H Shares. Registration on our H Share register will be on the condition that (i) our H Share registrar informs the Hong Kong Stock Exchange that the entry of the relevant H Shares on the H Share register and the despatch of H Shares certificates have been completed, and (ii) the admission of the H Shares to the Hong Kong Stock Exchange will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. We shall comply with the relevant Hong Kong Listing Rules to inform Shareholders and the public by way of an announcement of any conversion of A Shares into H Shares before the proposed date of such conversion.

As a result of the conversion, the shareholding of the relevant holders of A Shares in our A Share capital registered shall be reduced by the number of A Shares converted and the number of H Shares shall be increased by the corresponding number of H Shares. As of the Latest Practicable Date, the Directors were not aware of any intention of any holder of A Shares to convert all or part of their A Shares into H Shares.

SHAREHOLDERS' APPROVAL FOR THE [REDACTED]

Approval from holders of A Shares is required for the Company to **[REDACTED]** H Shares and seek the **[REDACTED]** of H Shares on Hong Kong Stock Exchange. Such approval was granted at the Shareholders' general meeting held on November 28, 2018. The approval is subject to the following conditions:

[REDACTED]

SHARE CAPITAL

[REDACTED]

As of the Latest Practicable Date, the following persons directly or indirectly control or were entitled to exercise the control of 5% or more of our A Shares:

Name of shareholder	Nature of Interest	Number and class of securities	Approximate percentage of shareholding
Central Huijin	Legal and beneficial owner	5,020,606,527 A Shares	22.28%
	Interest held by controlled corporations(1)	7,792,697,332 A Shares	34.58%
JIC	Legal and beneficial owner	6,596,306,947 A Shares	29.27%
Shanghai Jiushi	Legal and beneficial owner	1,212,810,389 A Shares	5.38%

(1) Central Huijin directly held approximately 22.28% of the total issued share capital of our Company. JIC, which was held as to 100% by Central Huijin, held approximately 29.27% of the total issued share capital of the Company. Central Huijin Asset Management Ltd., which was held as to 100% by Central Huijin, held approximately 0.88% of the total issued share capital of the Company. Everbright Group, which was held as to 55.67% by Central Huijin, held approximately 4.43% of the total issued share capital of the Company (as of March 31, 2019, 67,500,000 A Shares held by Everbright Group have been pledged). Therefore, Central Huijin is deemed to be interested in the A Shares held by JIC, Everbright Group and Central Huijin Asset Management Ltd. for the purpose of the SFO.

To the best of our Directors' knowledge and information, immediately following the completion of the **[REDACTED]**, and assuming the **[REDACTED]** is not exercised, based on the **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** (being the low end of the **[REDACTED]** range set out in this **[REDACTED]**), the following persons will, have interests or short positions in our Shares or underlying Shares of our Company which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of Interest	Number and class of securities	Approximate Percentage of Shareholding in the Relevant Class of Shares after the [REDACTED]	Approximate Percentage of Shareholding in the Total Issued Share Capital of our Company immediately after the [REDACTED]
Central Huijin	Legal and beneficial owner	5,020,606,527 A Shares	22.28%	**[REDACTED]**
	Interest held by controlled corporations(1)	7,792,697,332 A Shares	34.58%	**[REDACTED]**
	Interest held by controlled corporations(2)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
JIC	Legal and beneficial owner	6,596,306,947 A Shares	29.27%	**[REDACTED]**
Shanghai Jiushi	Legal and beneficial owner	1,212,810,389 A Shares	5.38%	**[REDACTED]**
[REDACTED]	Legal and beneficial owner	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
[REDACTED]	Legal and beneficial owner	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	Legal and beneficial owner	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Name of shareholder	Nature of Interest	Number and class of securities	Approximate Percentage of Shareholding in the Relevant Class of Shares after the [REDACTED]	Approximate Percentage of Shareholding in the Total Issued Share Capital of our Company immediately after the [REDACTED]
[REDACTED]	Legal and beneficial owner and interest held by controlled corporations(4)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	Legal and beneficial owner	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

(1) Central Huijin directly held approximately 22.28% of the total issued A Shares of our Company. JIC, which was held as to 100% by Central Huijin, held approximately 29.27% of the total issued A Shares of the Company. Central Huijin Asset Management Ltd., which was held as to 100% by Central Huijin, held approximately 0.88% of the total issued A Shares of the Company. Everbright Group, which was held as to 55.67% by Central Huijin, held approximately 4.43% of the total issued A Shares of the Company. Therefore, Central Huijin is deemed to be interested in the A Shares held by JIC, Everbright Group and Central Huijin Asset Management Ltd. for the purpose of the SFO.

[REDACTED]

For those who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of our Group, see "Appendix VI—Statutory and General Information—4. Disclosure of Interests—B. Disclosure of Interests of Substantial Shareholders."

Save as disclosed in this document, our Directors are not aware of any person who will, immediately following the completion of the **[REDACTED]** (and the **[REDACTED]** of any additional H Shares pursuant to the **[REDACTED]**), have an interest or short position in the Shares or underlying shares of the Company which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

As of the Latest Practicable Date, we were not aware of any arrangement which might on a subsequent date result in a change of control of our Company.

RELATIONSHIP WITH CENTRAL HUIJIN

Central Huijin is a state-owned investment company incorporated in accordance with PRC Company Law. Central Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises on behalf of the State. In September 2007, the MOF issued special treasury bonds and acquired all the shares of Central Huijin from the PBOC. The acquired shares were injected into China Investment Corporation as part of its initial capital contribution. However, Central Huijin's principal shareholder rights are exercised by the State Council. The members of Central Huijin's board of directors and board of supervisors are appointed by and are accountable to the State Council.

Central Huijin, in accordance with authorization by the State Council, makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC Government in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activity. It does not intervene in the day-to-day business operations of the firms in which it invests.

As of the Latest Practicable Date, Central Huijin directly held approximately 22.28% of the total issued share capital of our Company. JIC, which was held as to 100% by Central Huijin, held approximately 29.27% of the total issued share capital of our Company. Central Huijin Asset Management Ltd., which was held as to 100% by Central Huijin, held approximately 0.88% of the total issued share capital of our Company. Everbright Group, which was held as to 55.67% by Central Huijin, held approximately 4.43% of the total issued share capital of our Company. Immediately following completion of the **[REDACTED]**, Central Huijin[(1)] will directly hold approximately **[REDACTED]** of our total share capital, assuming that the **[REDACTED]** is not exercised (or approximately **[REDACTED]** if the **[REDACTED]** is exercised in full). JIC, which was held as to 100% by Central Huijin, will hold approximately **[REDACTED]** of our total share capital, assuming that the **[REDACTED]** is not exercised (or approximately **[REDACTED]** if the **[REDACTED]** is exercised in full). Central Huijin Asset Management Ltd., which was held as to 100% by Central Huijin, will hold **[REDACTED]** of our total share capital, assuming that the **[REDACTED]** is not exercised (or approximately **[REDACTED]** if the **[REDACTED]** is exercised in full). Everbright Group, which was held as to 55.67% by Central Huijin, will hold approximately **[REDACTED]** of our total share capital, assuming that the **[REDACTED]** is not exercised (or approximately **[REDACTED]** if the **[REDACTED]** is exercised in full).

For further details of the **[REDACTED]** undertakings given by Central Huijin pursuant to Rule 10.07 of the Listing Rules, see "**[REDACTED]**."

NON-COMPETITION UNDERTAKING FROM CENTRAL HUIJIN

Central Huijin has undertaken to our Company on July 22, 2014, that:

(a) so long as Central Huijin is being treated as the actual controller of our Company or a related party of an actual controller of our Company by any laws or listing rules of the PRC or places where our Shares are listed (if our Shares are listed and traded), it will not

engage or participate in any competing securities business within or outside of the PRC; where Central Huijin has participated in or conducted any competing securities business or any business or activity that has since evolved into a competing securities business anywhere within or outside of the PRC, Central Huijin will immediately cease its participation in or management or operation of such competing securities business;

(b) if Central Huijin obtains any governmental approval, authorization or license to operate securities business directly, or obtains any other business opportunity to operate securities business, Central Huijin undertakes to forthwith relinquish such approval, authorization or license, and will not engage in any securities business;

(c) notwithstanding the aforesaid undertakings (a) and (b), Central Huijin, as a state-owned investment company established by the PRC Government to engage in investments in the financial industry, may, through other companies in which it invests, engage or participate in competing securities business in any form (including but not limited to sole proprietorship, joint venture, cooperative operation and direct or indirect holding of shares or other interests of companies or enterprises) within or outside of the PRC; and

(d) as a state-owned investment company established by the PRC Government that engages in investments in the financial industry, Central Huijin shall treat the securities companies in which it invests equally and will not grant or provide to any such securities companies any government approvals, authorizations or licenses or business opportunities with respect to the operation of securities business it has obtained or may obtain. In addition, it will not make use of its status as an actual controller of our Company or the information it has received due to such status to make any decisions or judgments to the disadvantage of our Company and to the advantage of other securities companies in which it invests and shall avoid the occurrence of such objective consequence. In exercising its rights as an actual controller of our Company, Central Huijin shall, as if our Company were the only securities company in which it invests, exercise the rights of an actual controller for the greatest or best interests of our Company, and will not, as a result of its investments in other securities companies, affect the exercise of its business judgments upon us as an actual controller of our Company for the greatest or best interests of our Company.

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

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

OVERVIEW

We are a leading investment holding group focused on securities businesses in China. We provide comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management. Our principal business lines are:

- ***Enterprise finance*:** our enterprise finance business provides investment banking and principal investment services to our corporate clients. In our investment banking business, we provide equity underwriting and sponsorship, debt underwriting and financial advisory services. In addition, through our investment parent company, securities firm and various other subsidiaries, we engage in equity investment in unlisted companies and debt investment primarily through various financial instruments;
- ***Personal finance*:** our personal finance business serves the comprehensive financial needs of individuals and non-professional institutional clients. We provide services such as securities and futures brokerage, margin financing and securities lending, stock-backed lending, sales of financial products and investment advisory through our extensive online and offline channels;
- ***Institutional services and trading*:** our institutional services include prime brokerage and research services for professional institutional clients. We also engage in the trading of FICC, equity and equity-linked securities with our own funds or as a counterparty to institutional clients. Based on our trading capabilities, we offer sales, market-making, hedging and OTC derivatives services to institutional clients; and
- ***Investment management*:** our investment management business consists of asset management, mutual fund management and private equity fund management services.

BASIS OF PRESENTATION

Our financial statements have been prepared in accordance with all applicable IFRS which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB and also comply with the applicable disclosure provisions of the Listing Rules.

Our financial statements have been on the historical cost basis except that certain assets and liabilities are measured at fair value, as explained in the accounting policies set out in the Accountants' Report in Appendix I to this document. The financial information is presented in Renminbi, which is the reporting currency of our Company and our subsidiaries established in China.

The financial information includes our financial statements and the financial statements of entities that we control (our subsidiaries). We control an entity when we are exposed to, or have rights to, variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. Intra-group balances, transactions and cash flows and any unrealized gains arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment. Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the shareholders of our Company.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Economic and Market Conditions

As a leading investment holding group focused on securities businesses in China, our financial performance is mainly affected by the overall economic and market conditions.

Economic and market conditions that have been and may continue to affect our businesses and profitability include the macro economy, trading volumes in the capital markets, inflation rate, unemployment rate, interest rates and exchange rates, levels of business activity and investor confidence. Economic and market conditions may affect: (i) clients' financing needs, thereby affecting our businesses such as investment banking, stock-backed lending as well as margin financing and securities lending; (ii) clients' trading activities, thereby affecting our businesses such as securities brokerage, asset management and fund management; and (iii) the performance of our investment portfolios, thereby affecting our businesses such as proprietary trading and principal investment.

Regulatory Environment

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

The regulatory regime of the PRC securities industry has been evolving and the CSRC and other regulatory authorities are committed to reforming the PRC securities industry with an objective of improving capital market activities and efficiency, and broadening the scope of new products and services that securities firms can offer. For example, several new businesses have been introduced over the past few years, such as stock index futures, stock-backed lending, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. In addition, the PRC Government has also taken

various measures to improve the capital efficiency and diversify the funding sources of PRC securities firms, including allowing PRC securities firms to issue subordinated bonds, perpetual bonds and structured notes, among other things. At the same time, the PRC Government launched new rules including those on stock-backed lending and asset management to further regulate and support the development of the stock-backed lending and asset management businesses. We expect these regulatory reforms and governmental measures to continue to affect the PRC securities industry and our business, financial condition and results of operations.

Competition

The PRC securities industry is highly competitive, and we face intense competition in all aspects of our business. We compete primarily with other securities firms in China with similar service scope and business scale, some of whom may offer a broader range of services, have greater financial resources or have larger customer bases. We also compete in different levels of cross-industry and cross-business with other financial service providers, such as fund management companies, commercial banks, insurance companies and trust companies.

We believe that the principal factors affecting competition include price, types of products and services offered, transaction execution, experience and knowledge of staff and geographic coverage. Increased competition or an adverse change in our competitive position could lead to a reduction of market share and therefore a reduction of revenue and profit, in particular, causing the brokerage fee and commission income of the securities brokerage business, which accounted for a considerable portion of our revenue, to decrease.

Our securities brokerage business was mainly influenced by commission rates and trading volumes. In line with the intensified price competition in the securities brokerage business in China and the resultant industry trend of decreasing brokerage commission rates, the average brokerage commission rate has decreased over the past few years. In 2016, 2017 and 2018, our average brokerage commission rate was 4.57bps, 4.00bps and 3.60bps, respectively. We offer and improve our differentiated value-added services with various pricing packages to alleviate the downward pressure on our average brokerage commission rate.

The following table shows a sensitivity analysis to illustrate the potential impact of the changes in our average securities brokerage commission rate on our profit before income tax, assuming all other variables remain constant, for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Change in average securities brokerage commission rate			
Increase by 0.5bp	548.0	454.5	344.6
Decrease by 0.5bp	(548.0)	(454.5)	(344.6)
Increase by 1.0bp	1,096.1	908.9	689.2
Decrease by 1.0bp	(1,096.1)	(908.9)	(689.2)

Government-led Stabilization Measures

In recent years, the PRC Government has implemented a number of measures to stabilize the capital markets.

In 2015, in response to the significant fluctuations that the A-share market experienced from mid-June to the end of August, the PRC Government has introduced a series of measures to stabilize the stock market and restore investor confidence. Accordingly, along with a number of other PRC securities firms, we contributed twice to the designated accounts at China Securities Finance for purchasing blue-chip ETFs in China in 2015. As of December 31, 2018, the fair value of our contribution to the designated accounts at China Securities Finance, which is accounted for as financial assets at fair value through other comprehensive income on our consolidated statements of financial position, was RMB6.2 billion, of which the initial cost was RMB6.4 billion, and we had realized gain of RMB0.5 billion in aggregate from such contributions.

These measures and our significantly increased long-only equity trading position in the PRC stock market expose us to greater market and other risks. We cannot control how China Securities Finance will make use of the funds for purchasing blue-chip ETFs in China and when our contributions will be returned.

Meanwhile, in response to the government policy of resolving the difficulties of private enterprises to obtain financing, similar to other PRC securities firms, we established in November 2018 an asset management scheme with the initial cost of RMB2.0 billion, to provide financing to high-quality private enterprises. As of the Latest Practicable Date, we had not deployed the capital in such asset management scheme to any specific use. Nevertheless, there can be no assurance that we are able to achieve returns or recover any of our investments in such asset management scheme after any capital deployment. There can be no assurance that we will not increase our subscribed amount in the future.

Business Lines and Product Mix

Our business lines and products and services have different profit margins and future growth prospects and, as a result, any material changes in our product mix, whether due to changes in our growth strategies, market conditions, customer demand and/or other reasons, may affect our financial condition and results of operations. Our historical financial results were largely affected by the revenue contributions and profit margins of our personal finance and institutional services and trading businesses. In the future, we plan to proactively implement our strategy enhancing synergy between our investment and investment banking businesses, and seek to diversify our sources of income. Our future results of operations and financial condition could be significantly affected by our abilities to design, develop and launch new products, to transact with new clients and counterparties, to manage new asset types and to enter new markets.

Interest Rates

Our business and results of operations are also affected by changes in interest rates in China. Changes in interest rates affect the value of our financial assets and liabilities. An increase in interest rates would result in an increase in our interest income from our floating-rate interest-earning assets. Our interest-earning assets consist primarily of cash and bank balances, clearing settlement funds, margin accounts receivable and financial assets held under resale agreements, among other things. Meanwhile, an increase in interest rates could cause a decline in the fair value of the fixed-income securities we invest in and adversely affect our average investment yield, while lowering the ability or willingness of our corporate clients to raise funds from the debt markets, leading to a reduction of income generated from our debt underwriting business. An increase in interest rates would also increase the amount of interest expense we need to pay on floating-rate interest-bearing liabilities and

our financing costs. We make interest payments on loans and borrowings, long-term bonds issued, short-term debt instruments issued, placements from other financial institutions, financial assets sold under repurchase agreements and accounts payable to brokerage clients, among other things.

When interest rates decrease, our financing costs would decrease accordingly, and the fair value of the fixed-income securities would increase, leading to a positive impact on our average investment yield. However, the decrease of interest rate would result in a decrease in the interest income from our floating-rate interest-earning assets. If the increase in the amount of interest expenses we need to pay is higher than the increase in the amount of interest income we earn, our business and results of operations may be adversely affected. For a sensitivity analysis on the impacts of interest rates on our financial position, see "—Qualitative and Quantitative Disclosures about Risks—Market Risk—Interest rate risk."

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Accountants' Report in Appendix I to this document sets forth certain significant accounting policies in note 2, which are important for the preparation of the financial statements. We believe that the accounting policies relating to revenue recognition and financial instruments are critical to understanding our financial condition and results of operations.

The preparation of historical financial information in conformity with IFRS requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of the revision and affected future periods. We consider the following as our critical accounting judgments and estimates, the details of which are set out in note 2 of the Accountants' Report in Appendix I to this document:

- Impairment of financial instruments;
- Fair value of financial instruments;
- Impairment of non-financial assets;
- Income taxes;
- Depreciation and amortization; and
- Determination of consolidation scope.

Changes in Accounting Policies

We have adopted IFRS 9 Financial Instruments from January 1, 2018. A number of other new standards are effective from January 1, 2018 but they do not have a material effect on our financial statements. For example, we have early adopted IFRS 15 Revenue from Contracts with Customers for 2016, 2017 and 2018, and the adoption of IFRS 15 had no material impact on our historical financial information during the Track Record Period. See note 2 of the Accountants' Report in Appendix I to this document.

IFRS 9, Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: recognition and measurement. It sets out the requirements for recognizing and measuring financial assets, financial liabilities and hedge accounting.

We have applied IFRS 9 retrospectively to items that existed on January 1, 2018 in accordance with the transition requirements. We have recognized the cumulative effect of initial application as an adjustment to the opening balance of equity on January 1, 2018. Upon initial adoption of IFRS 9 on January 1, 2018, our total net asset decreased by RMB14.1 million, or 0.02%, on January 1, 2018, which is insignificant to our net assets. The following table sets forth a summary of the opening balance adjustments recognized for each line item in the consolidated statement of financial position that has been impacted by IFRS 9:

	As of December 31, 2017	Impact on initial application of IFRS 9	As of January 1, 2018
		(RMB in millions)	
Property and equipment	1,396.1	–	1,396.1
Investment properties	85.1	–	85.1
Other intangible assets	142.0	–	142.0
Interest in associates and joint ventures	1,870.7	–	1,870.7
Financial assets measured at amortized cost	–	6,482.7	6,482.7
Financial assets at fair value through other comprehensive income	–	10,565.4	10,565.4
Available-for-sale financial assets	17,865.0	(17,865.0)	–
Financial assets held under resale agreements	10,482.6	–	10,482.6
Financial assets at fair value through profit or loss	–	1,712.2	1,712.2
Refundable deposits	5,459.3	–	5,459.3
Deferred tax assets	1,310.5	3.3	1,313.8
Other non-current assets	1,083.6	(900.0)	183.6
Total non-current assets	**39,694.9**	**(1.4)**	**39,693.5**
Accounts receivable	1,525.4	–	1,525.4
Other receivables and prepayments	3,949.9	(500.0)	3,449.9
Margin accounts receivable	55,738.7	–	55,738.7
Financial assets measured at amortized cost	–	3,927.5	3,927.5
Financial assets at fair value through other comprehensive income	–	19,133.2	19,133.2
Available-for-sale financial assets	29,122.7	(29,122.7)	–
Financial assets at fair value through profit or loss	49,362.5	6,558.8	55,921.3
Derivative financial assets	6.7	–	6.7
Financial assets held under resale agreements	33,570.7	(1.5)	33,569.2
Clearing settlement funds	2,590.3	–	2,590.3
Cash held on behalf of brokerage clients	62,006.8	–	62,006.8
Cash and bank balances	22,374.7	(8.0)	22,366.7
Total current assets	**260,248.4**	**(12.7)**	**260,235.7**
Total assets	**299,943.3**	**(14.1)**	**299,929.2**
Total current liabilities	**181,900.4**	**–**	**181,900.4**
Net current assets	**78,348.0**	**(12.7)**	**78,335.3**
Total assets less current liabilities	**118,042.9**	**(14.1)**	**118,028.8**
Total non-current liabilities	**61,037.1**	**–**	**61,037.1**
Net assets	**57,005.8**	**(14.1)**	**56,991.7**
Share capital	20,056.6	–	20,056.6
Reserves	16,967.2	(265.1)	16,702.1
Retained profits	18,173.4	251.1	18,424.5
Total equity attributable to shareholders of the Company	**55,197.2**	**(14.0)**	**55,183.2**
Non-controlling interests	**1,808.6**	**(0.1)**	**1,808.5**
Total equity	**57,005.8**	**(14.1)**	**56,991.7**

The details of IFRS 9 and the nature and effect of the changes to our previous accounting policies are set out below:

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (i) amortized cost; (ii) fair value through profit or loss; and (iii) fair value through other comprehensive income:

- Non-equity investments are measured at amortized cost if the investments are held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investments is calculated using the effective interest method.
- Non-equity investments are measured at fair value through other comprehensive income (recycling) if the contractual cash flows of the investments comprise solely payments of principal and interest and the investments are held within a business model whose objective is achieved by both the collection of contractual cash flows and sales. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investments are derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- Non-equity investments are measured at fair value through profit or loss, if the investments do not meet the criteria for being measured at amortized cost or fair value through other comprehensive income (recycling). Changes in the fair value of the investments (including interest) are recognized in profit or loss.

  Investments in equity securities are classified as fair value through profit or loss unless the equity investments are not held for trading purposes and on initial recognition of the investment we make an election to designate such investment as financial assets at fair value through other comprehensive income (non-recycling). Such elections are made on an instrument-by-instrument basis, but may only be made if the investments meet the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from investments in equity securities, irrespective of whether classified as at fair value through profit or loss or fair value through other comprehensive income (non-recycling), are recognized in profit or loss.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability's credit risk to be recognized in other comprehensive income (without reclassification to profit or loss).

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. Under the ECL model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure either a 12-month ECL, or a lifetime ECL, depending on the asset and the facts and circumstances.

The following table provides information about our ECLs for financial assets as of December 31, 2018:

	Impairment loss allowance as of December 31, 2018				
	12-month ECL	Lifetime ECL–not credit impaired	Lifetime ECL–credit impaired	Total	ECL rate
	(RMB in millions, except for percentages)				
Cash and bank balances	6.2	–	–	6.2	0.02%
Margin accounts receivable	84.3	–	–	84.3	0.20%
Accounts receivable	–	33.7	125.1	158.8	11.37%
Financial assets held under resale agreements	188.8	18.5	419.8	627.1	0.94%
Financial assets measured at amortized cost	6.4	–	180.9	187.3	1.81%
Financial assets at fair value through other comprehensive income	19.8	4.7	150.0	174.5	0.79%
Other receivables and prepayments	0.4	25.2	197.7	223.3	5.50%
Total	**305.9**	**82.1**	**1,073.5**	**1,461.5**	**0.84%**

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognizing ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. We have estimated that the hedge accounting requirements of IFRS 9 have no material impact on our financial statements.

Valuation of Financial Assets at Fair Value

We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- Level I valuations: fair value measured using only level I inputs, which are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level II valuations: fair value measured using level II inputs, which are observable inputs which fail to meet level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level III valuations: fair value measured using significant unobservable inputs.

For our financial instruments in level III, fair values are determined using valuation techniques such as discounted cash flow models and other similar techniques. Reasonably possible changes as of December 31, 2016, 2017 and 2018 to one of the significant unobservable inputs, holding other inputs constant, would not result in significant changes in the fair value of our financial instruments in level III. Our financial instruments in level III mainly include wealth management products, structured

entities and preferred shares. The key unobservable input for these financial instruments' valuation is risk adjusted discount rate. Based on the quantitative sensitivity analysis of the inputs (assuming 0.25% (25bps) movement of the risk-adjusted discount rate, 10% movement of discount for lack of marketability and 10% movement of volatility), the impact of such movements on our profit for the year is 0.11% to 0.52% and that on our equity is 0.04% to 0.09%, which are not significant. See note 59 of the Accountants' Report in Appendix I to this document for more details.

To ensure the valuation of financial assets at fair value to be in accordance with the foregoing methodologies, we have: (i) instituted policies on valuation methodologies, models and procedures in accordance with PRC GAAP and valuation guidelines for securities firms issued by the SAC; (ii) taken a prudent approach as to the valuation methodologies with respect to different types of financial instruments; and (iii) been adhering to the principle of substance over form to ensure the valuation methodologies adopted are appropriate as to the underlying financial instruments to reflect accurately the economic substance when carrying out the valuation work.

Our daily operations involve a significant amount of financial assets and the valuation of such financial assets is part of our normal business. Generally, the valuation models of financial instruments are proposed by our business departments and adopted after our risk management department evaluates their effectiveness. Our valuation department issues valuation reports according to such models and submits the valuation reports to the finance department and risk management department. Our finance department performs accounting reviews on such reports and our risk management department performs risk assessments on the effectiveness of the valuation models to ensure the reasonableness and reliability of such models periodically, and on any material adjustments to existing valuation models or the implementation of any new valuation models. Our audit department also internally audits the internal controls and implementation of the valuation policies and gives recommendations for improvement.

As part of the procedures of our reporting accountants on our historical financial information as of and for the years ended December 31, 2016, 2017 and 2018, for the purposes of expressing an opinion on such historical financial information taken as a whole, our reporting accountants have performed certain procedures in respect of our estimation on the valuation of financial assets at fair value (the "Valuation"). These procedures include, but are not limited to, assessing the relevant internal controls, evaluating the reasonableness of valuation models used by us, and reviewing the adequacy of the disclosures made in our historical financial information.

Taking into account: (i) our internal control procedures and risk management measures over the Valuation; (ii) the procedures performed by the reporting accountants as described in the preceding paragraph for the purpose of expressing an opinion on the historical financial information taken as a whole; (iii) the review procedures performed by our internal control consultant in respect of the Valuation and the conclusions of such internal control review; and (iv) the independent due diligence work performed by the Joint Sponsors in respect of the Valuation, the Joint Sponsors are of the view that nothing has come to their attention that would cause them to disagree with the Valuation as reflected in the historical financial information taken as a whole.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Revenue and Other Income

Our revenue and other income consists primarily of fee and commission income, interest income and net investment gains. The following table summarizes our revenue and other income for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Fee and commission income	11,554.1	8,748.5	6,419.3
Interest income	7,254.5	8,139.4	9,450.9
Net investment gains	2,672.4	3,749.6	5,644.6
Total revenue	**21,481.0**	**20,637.5**	**21,514.8**
Other income and gains	237.9	287.1	2,594.8
Total revenue and other income	**21,718.9**	**20,924.6**	**24,109.6**

Fee and commission income

Our fee and commission income consists of income mainly from the following businesses:

(i) securities and futures brokerage and financial products sales businesses of the personal finance segment;

(ii) asset management, mutual fund management and private equity fund management businesses of the investment management segment;

(iii) investment banking business of the enterprise finance segment; and

(iv) prime brokerage business and securities and futures brokerage and financial products sales businesses for professional institutional investors of the institutional services and trading segment.

The following table summarizes our fee and commission income for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Income from securities brokerage business	6,927.0	5,348.7	3,878.0
Income from asset management business	1,850.0	1,332.6	1,239.3
Income from underwriting and sponsorship business	1,727.5	1,193.6	652.7
Income from futures brokerage business	475.5	531.4	397.5
Income from financial advisory business	574.1	342.2	251.8
Total fee and commission income	**11,554.1**	**8,748.5**	**6,419.3**

We earn fee and commission income in our personal finance business by trading stocks, funds, bonds, futures and options on behalf of clients. We also provide prime brokerage services to institutional clients.

We also provide asset management and fund management services for clients in our investment management business, and generate income from asset management fees and performance fees.

We provide equity underwriting and sponsorship services, debt underwriting services and financial advisory services in the investment banking business of our enterprise finance segment, and generate income from underwriting and sponsorship fees and financial advisory fees.

Interest income

Our interest income is mainly derived from the following businesses:

(i) margin financing and securities lending business, stock-backed lending business and securities and futures brokerage business of the personal finance segment; and

(ii) proprietary trading business, prime brokerage business and securities and futures brokerage business for professional institutional investors of the institutional services and trading segment.

Our interest income mainly includes: (i) interest income from the margin financing and securities lending business and stock-backed lending business; (ii) interest income from financial institutions; and (iii) interest income from other financial assets held under resale agreements. The following table summarizes our interest income for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Interest income from financial institutions	2,703.2	2,711.6	2,414.8
Interest income from margin financing and securities lending	4,261.7	4,063.7	3,631.8
Interest income from securities-backed lending	175.3	1,065.5	2,858.3
Interest income from other financial assets held under resale agreements	114.3	298.6	546.0
Total interest income	**7,254.5**	**8,139.4**	**9,450.9**

Interest income from financial institutions primarily represents the interest income we receive from banks and other financial institutions for cash balance held on behalf of our brokerage clients as well as our own cash balance. Cash balance held on behalf of our brokerage clients is primarily affected by the overall level of trading activities in our securities and futures brokerage business.

Interest income from the margin financing and securities lending and securities-backed lending mainly depends on the balance of financing we extend to our clients and the interest rates agreed between our clients and us.

Interest income of other financial assets held under resale agreements primarily derives from the resale agreements we entered into with counterparties (such as banks and other financial institutions), under which we are entitled to receive interest income by purchasing financial assets (such as bonds and notes) from the counterparty and agreeing to resell such assets back to the counterparty at a predetermined price on the maturity date of the resale agreement.

Net investment gains

Our net investment gains are derived mainly from the following businesses:

(i) proprietary trading businesses of the institutional services and trading segment;

(ii) principal investment business of the enterprise finance segment; and

(iii) asset management business of the investment management segment.

The following table summarizes our net investment gains for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Net realized gains from disposal of available-for-sale financial assets	951.9	667.2	–
Dividend income and interest income from available-for-sale financial assets	883.7	1,464.4	–
Net realized losses from disposal of financial instruments at fair value through profit or loss	(1,742.8)	(737.4)	(326.6)
Net realized gains from disposal of financial instruments at fair value through other comprehensive income	–	–	324.2
Dividend income and interest income from financial instruments at fair value through profit or loss	3,501.0	2,329.5	3,248.5
Dividend income and interest income from financial instruments at fair value through other comprehensive income	–	–	1,822.5
Net realized gains/(losses) from disposal of derivative financial instruments	57.2	81.9	(155.9)
Unrealized fair value changes of financial instruments at fair value through profit or loss	(943.9)	(123.0)	73.0
Unrealized fair value changes of derivative financial instruments	(74.1)	33.4	(140.1)
Interest income from held-to-maturity investments	1.4	–	–
Interest income from financial assets measured at amortized cost	–	–	799.0
Interest income from investments classified as receivables	38.0	33.6	–
Total net investment gains	**2,672.4**	**3,749.6**	**5,644.6**

We adopted IAS 39 Financial Instruments before January 1, 2018. Our net investment gains primarily include investment gains and losses from: (i) financial assets at fair value through profit or loss; (ii) available-for-sale financial assets; and (iii) derivative financial instruments.

Our financial assets at fair value through profit or loss primarily include the following categories of assets:

- fixed-income and equity securities held for trading in our institutional services and trading segment; and
- investments in fixed-income and equity securities made by asset management schemes participated by us with our own funds and invested by our consolidated structured entities in our investment management segment.

Our net investment gains from financial assets at fair value through profit or loss mainly consist of: (i) net realized gains or losses from disposal of these financial assets; (ii) changes in fair value of these financial assets; and (iii) dividends and interest income from these financial assets.

Our available-for-sale financial assets primarily include the following categories of assets:

- investments in fixed-income and equity securities designated as available-for-sale in our institutional services and trading segment, including our contribution to the designated accounts at China Securities Finance;
- equity and debt investments designated as available-for-sale in our principal investment business;

- investments in fixed-income and equity securities designated as available-for-sale made by asset management schemes participated by us with our own funds and invested by our consolidated structured entities in our investment management segment; and
- equity securities designated as available-for-sale in our personal finance segment for the securities lending business.

Our net investment gains from available-for-sale financial assets mainly consist of: (i) net realized gains or losses from disposal of these financial assets; and (ii) dividends and interest income from these financial assets during the holding period.

Our net investment gains from derivative financial instruments, primarily treasury bond futures, interest rate swaps, OTC options and precious metal options, consist of: (i) net realized gains from disposal of these financial instruments; and (ii) changes in fair value of these financial instruments.

Since January 1, 2018, we have adopted IFRS 9 Financial Instruments. We reclassified financial assets formerly under IAS 39 based on the requirements under IFRS 9, with the major changes below:

- certain of the available-for-sale financial assets, such as (i) debt investments in the principal investment business, (ii) fixed-income securities in the institutional services and trading segment, and (iii) investments in fixed-income securities made by asset management schemes invested with our own funds in the investment management segment, were reclassified as financial assets at amortized cost;
- certain of the available-for-sale financial assets, such as (i) equity investments in the principal investment business, (ii) investments in equity and fixed-income securities in the institutional services and trading segment, and (iii) investments in equity securities made by asset management schemes invested with our own funds in the investment management segment, were reclassified as financial assets at fair value through profit or loss; and
- certain of the available-for-sale financial assets, such as (i) investments in equity securities not held for trading and fixed-income securities in the institutional services and trading segment, and (ii) equity securities available for securities lending in the personal finance segment, were reclassified as financial assets at fair value through other comprehensive income.

Since January 1, 2018, our net investment gains primarily include investment gains and losses from: (i) financial assets at fair value through profit or loss; (ii) financial assets at fair value through other comprehensive income; (iii) financial assets at amortized cost; and (iv) derivative financial instruments.

Our financial assets at fair value through profit or loss primarily include the following categories of assets:

- fixed-income and equity securities held for trading in our institutional services and trading segment;
- equity investments in our principal investment segment; and
- investments in equity securities held for trading and fixed-income securities made by asset management schemes participated by us with our own funds and invested by our consolidated structured entities in our investment management segment.

Our net investment gains from financial assets at fair value through profit or loss mainly consist of: (i) net realized gains or losses from disposal of these financial assets; (ii) changes in fair value of these financial assets; and (iii) dividends and interest income from these financial assets during the holding period.

Our financial assets at fair value through other comprehensive income primarily include the following categories of assets:

- investments in fixed-income securities from which we earn interests or held for sales and investments in equity securities not held for trading in our institutional services and trading segment, including our contribution to the designated accounts at China Securities Finance; and
- equity securities available for securities lending in our personal finance segment.

Our net investment gains from financial assets at fair value through other comprehensive income mainly consist of: (i) dividends and interest income from these financial assets during the holding period; and (ii) net realized gains or losses from disposal of these financial assets (not including investments in equity securities not held for trading).

Our financial assets at amortized cost primarily include the following categories of assets:

- debt investments in our principal investment business;
- investments in fixed-income securities made by asset management schemes participated by us with our own funds in our investment management segment; and
- investments in fixed-income securities from which we earn interests and held to maturity in our institutional services and trading segment.

Our net investment gains from financial assets at amortized cost mainly consist of: (i) interest income from these financial assets during the holding period; and (ii) net realized gains or losses from disposal of these financial assets.

Our net investment gains from derivative financial instruments, primarily treasury bond futures, interest rate swaps, OTC options and precious metal options, consist of: (i) net realized gains from disposal of these financial instruments; and (ii) changes in fair value of these financial instruments.

Other income and gains

Our other income and gains primarily include income from sales of spot commodities in our basis trading business and certain non-recurring income, such as government grants and foreign exchange gains. Rental income is mainly from leasing our properties to external parties.

The following table summarizes our other income and gains for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Government grants	161.2	168.9	122.2
Rental income	15.5	29.2	28.3
Income from commodity trading business	7.5	40.1	2,394.1
Foreign exchange gains	11.2	2.0	4.7
Income from tax authorities for individual income tax withheld	21.3	25.1	18.2
Income from disposal of property and equipment	2.6	0.4	0.3
Compensation received	2.8	9.7	6.0
Income from futures market-making	–	–	14.0
Miscellaneous	15.8	11.7	7.0
Total other income and gains	**237.9**	**287.1**	**2,594.8**

Total expenses

Our total expenses primarily include: (i) fee and commission expenses; (ii) interest expenses; (iii) staff costs; (iv) depreciation and amortization expenses; (v) tax and surcharges; and (vi) other operating expenses. The following table summarizes our total expenses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Fee and commission expenses	1,650.9	1,370.2	946.6
Interest expenses	5,387.0	6,389.6	8,089.1
Staff costs	5,760.9	5,040.6	5,177.9
Depreciation and amortization expenses	286.0	295.5	297.9
Tax and surcharges	424.8	113.7	130.4
Other operating expenses	1,584.9	1,582.2	3,833.2
Provision for impairment losses	450.8	428.5	658.7
Total expenses	**15,545.3**	**15,220.3**	**19,133.8**

Fee and commission expenses

Our fee and commission expenses primarily include expenses for: (i) securities and futures business; (ii) underwriting and sponsorship business; (iii) financial advisory business; and (iv) asset management business. Our fee and commission expenses are mainly derived from the following businesses:

(i) securities and futures brokerage and sales of financial products businesses of the personal finance segment;

(ii) investment banking business of the enterprise finance segment;

(iii) prime brokerage business, securities and futures brokerage and sales of financial products businesses for professional institutional investors of the institutional services and trading segment; and

(iv) asset management business of investment management segment.

The following table summarizes our fee and commission expenses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Expenses for securities brokerage business	1,325.3	1,106.2	802.8
Expenses for futures brokerage business	93.2	95.7	74.8
Expenses for underwriting and sponsorship business	175.0	138.1	27.1
Expenses for financial advisory business	11.5	0.7	1.2
Expenses for asset management business	45.9	29.5	40.7
Total fee and commission expenses	**1,650.9**	**1,370.2**	**946.6**

Interest expenses

Our interest expenses primarily include: (i) interest expenses for financial assets sold under repurchase agreements; (ii) interests expenses for long-term bonds; and (iii) interest expenses for short-term debt instruments issued. Our interest expenses are mainly derived from the following businesses:

(i) margin financing and securities lending business, stock-backed lending business and securities and futures brokerage business of the personal finance segment; and

(ii) proprietary trading business, prime brokerage business and securities and futures brokerage business for professional institutional investors of the institutional services and trading segment.

The following table summarizes our interest expenses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Interest expenses for financial assets sold under repurchase agreements	2,063.7	2,258.4	2,738.9
Interest expenses for long-term bonds	1,839.3	2,552.4	3,356.7
Interest expenses for short-term debt instruments issued	428.9	517.3	870.4
Interest expenses for other structured entities' holders	480.6	472.5	312.8
Interest expenses for accounts payable to brokerage clients	384.5	292.2	250.0
Interest expenses for placements from other financial institutions	93.3	219.9	412.6
Interest expenses for loans and borrowings	31.1	57.6	108.1
Others[(1)]	65.6	19.3	39.6
Total interest expenses	**5,387.0**	**6,389.6**	**8,089.1**

(1) This mainly includes interest expenses on precious metal leasing.

Our interest expenses for financial assets sold under repurchase agreements primarily derive from repurchase agreements we entered into with counterparties (such as banks and other financial institutions), under which we incur interest expenses by pledging or selling financial assets (such as bonds and margin accounts receivable) to the counterparty and agreeing to repurchase such assets back from the counterparty at a predetermined price on the maturity date of the repurchase agreement.

Our interest expenses for long-term bonds and short-term debt instruments mainly represent interests we paid to holders of bonds and structured notes issued.

Our interest expenses for accounts payable to brokerage clients mainly represent interests we paid on our customers' deposits with reference to prevailing benchmark interest rates announced by the PBOC.

Staff costs

Our staff costs primarily include salaries, bonuses and allowances, contributions to pension schemes and other social welfare. The following table summarizes our staff costs for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Salaries, bonuses and allowances	4,777.9	3,907.0	3,953.6
Contribution to pension schemes	237.6	270.6	304.1
Other social welfare	745.4	863.0	920.2
Total staff costs	**5,760.9**	**5,040.6**	**5,177.9**

Depreciation and amortization expenses

Our depreciation and amortization expenses relate primarily to: (i) depreciation of our properties and equipment; (ii) amortization of investment properties and long-term deferred expenses; and (iii) amortization of other intangible assets. The following table summarizes our depreciation and amortization for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Depreciation of property and equipment	172.5	178.0	176.6
Amortization of investment properties	4.8	5.4	5.1
Amortization of long-term deferred expenses	57.2	55.3	49.0
Amortization of other intangible assets[(1)]	51.5	56.8	67.2
Total depreciation and amortization expenses	**286.0**	**295.5**	**297.9**

(1) Our intangible assets primarily consist of software, land use rights and trading seat rights. We amortize software and land use rights, where the amortization period of software is three years and the amortization period of land use rights is ten to 40 years. Pursuant to the Provisional Regulations of the People's Republic of China concerning the Grant and Assignment of the Right to Use State Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), the maximum term of grants of the right to use land is 40 years in the case of land for commercial purposes. We amortize the premise and land use rights based on the useful lives specified in the relevant certificates issued by local governments.

Other operating expenses

Our other operating expenses mainly include cost of sales of spot commodities in basis trading activities, rental expenses and utilities, administrative and office operating expenses, promotion and entertainment expenses, postal and communication expenses, IT expenses and other business development and general expenses. The following table summarizes our other operating expenses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Cost of commodity trading business	–	37.6	2,298.0
Rental expenses and utilities	437.4	440.5	451.5
Administrative and office operating expenses	223.3	230.9	222.4
Promotion and entertainment expenses	155.5	118.7	123.3
IT expenses	131.9	126.1	114.0
Postal and communication expenses	131.8	133.3	144.5
Business travel expenses	96.3	101.8	99.7
Investor protection funds and risk reserves for future business	94.1	74.4	78.5
Stock exchanges management fees	82.5	70.0	72.2
Funds and asset management plans distribution expenses	65.6	66.2	72.8
Consulting and professional services	57.2	60.7	62.9
Losses on disposal of property and equipment	9.0	10.1	3.2
Donation and sponsorships	7.9	17.4	13.1
Auditors' remuneration	5.8	5.7	5.4
Transaction cost of structured entities	27.9	15.7	22.5
Information advisory fee	7.1	8.9	–
Compensation paid	6.5	3.0	1.4
Labor protection fee	3.8	13.0	5.8
Miscellaneous	41.3	48.2	42.0
Total	**1,584.9**	**1,582.2**	**3,833.2**

Provision for/(reversal of) impairment losses

Before the adoption of IFRS 9, the carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognized.

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortized cost and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (which are, the difference between the cash flows due to the entity in accordance with the contract and the cash flows that we expect to receive). ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which we are exposed to credit risk.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are expected credit losses that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

We have elected to measure loss allowances for accounts receivables at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

We measure loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (namely, the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

In assessing whether the credit risk of an asset has significantly increased, we take into account qualitative and quantitative reasonable and supportable forward-looking information. For example:

- With respect to our margin financing and securities lending as well as stock-backed lending business businesses, we consider the maintenance margin ratio or collateral coverage ratio, repayment of principal and interests and other factors that indicate significantly increased credit risk; and
- With respect to our debt investments, we consider the changes in the financial status of debtors, performance of contracts, repayment of principal and interests and other factors that indicate significantly increased credit risk.

Since January 1, 2018, we have made provisions for impairment losses on assets in the above-mentioned businesses in accordance with the requirements under IFRS and our accounting policies. We believe that we have made sufficient allowance to cover the ECLs. The following table summarizes our provision for impairment losses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Provision for impairment losses against available-for-sale financial assets	434.9	242.4	–
Provision for impairment losses against financial assets at fair value through other comprehensive income	–	–	89.4
Provision for impairment losses against financial assets held under resale agreements	26.9	130.6	463.0
Provision for impairment losses against accounts receivable	13.8	33.1	68.3
Provision for/(reversal of) for impairment losses against other receivables and prepayments	6.1	(4.7)	68.2
Provision for impairment losses against financial assets measured at amortized cost	–	–	23.2
Reversal of impairment losses against cash and bank balances	–	–	(1.9)
(Reversal of)/provision for impairment losses against margin accounts receivable	(30.9)	27.1	(51.5)
Total provision for impairment losses	**450.8**	**428.5**	**658.7**

Income Tax Expenses

We are subject to income tax on a single-entity basis on profits arising in, or derived from, the jurisdictions in which our members are domiciled and operate. During the Track Record Period, our Company and a majority of our PRC subsidiaries were subject to an EIT rate of 25.0% in accordance

with the EIT Law that became effective on January 1, 2008. Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profits during the Track Record Period.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Fee and commission income	11,554.1	8,748.5	6,419.3
Interest income	7,254.5	8,139.4	9,450.9
Net investment gains	2,672.4	3,749.6	5,644.6
Total revenue	**21,481.0**	**20,637.5**	**21,514.8**
Other income and gains	237.9	287.1	2,594.8
Total revenue and other income	**21,718.9**	**20,924.6**	**24,109.6**
Fee and commission expenses	1,650.9	1,370.2	946.6
Interest expenses	5,387.0	6,389.6	8,089.1
Staff costs	5,760.9	5,040.6	5,177.9
Depreciation and amortization expenses	286.0	295.5	297.9
Tax and surcharges	424.8	113.7	130.4
Other operating expenses	1,584.9	1,582.2	3,833.2
Provision for impairment losses	450.8	428.5	658.7
Total expenses	**15,545.3**	**15,220.3**	**19,133.8**
Operating profit	**6,173.6**	**5,704.3**	**4,975.8**
Share of profit of associates and joint ventures	211.7	223.2	211.5
Profit before income tax	**6,385.3**	**5,927.5**	**5,187.3**
Income tax expense	857.0	1,201.7	939.5
Profit for the year	**5,528.3**	**4,725.8**	**4,247.8**
Attributable to:			
Shareholders of the Company	5,409.1	4,599.7	4,160.2
Non-controlling interests	119.2	126.1	87.6

Revenue and Other Income

Comparisons between 2018 and 2017

Our total revenue and other income increased by 15.2% to RMB24,109.6 million in 2018 from RMB20,924.6 million in 2017, primarily due to increases in our interest income and net investment gains, partially offset by a decrease in our fee and commission income.

Comparisons between 2017 and 2016

Our total revenue and other income decreased by 3.7% to RMB20,924.6 million in 2017 from RMB21,718.9 million in 2016, primarily due to a decrease in our fee and commission income, partially offset by increases in our interest income and net investment gains.

Fee and Commission Income

Comparisons between 2018 and 2017

Our fee and commission income decreased by 26.6% to RMB6,419.3 million in 2018 from RMB8,748.5 million in 2017. This was primarily as a result of decreases in the fee and commission income from our securities brokerage as well as underwriting and sponsorship businesses.

Income from securities brokerage business decreased by 27.5% to RMB3,878.0 million in 2018 from RMB5,348.7 million in 2017, primarily due to decreases in our securities brokerage trading volume and commission rates as a result of decreases in the securities brokerage trading volumes and commission rates of the market generally and increased competition. In 2018, our brokerage trading volume of stocks and funds decreased to RMB6,892.0 billion from RMB9,089.2 billion in 2017. In 2018, our average securities brokerage commission rate decreased to 3.60bps from 4.00bps in 2017.

Income from asset management business decreased by 7.0% to RMB1,239.3 million in 2018 from RMB1,332.6 million in the same period in 2017, primarily due to a decrease in the scale and weakened performance of our mutual fund schemes as a result of unfavorable market conditions, resulting in a decrease in the management fee income recognized of our mutual fund schemes.

Income from underwriting and sponsorship business decreased by 45.3% to RMB652.7 million in 2018 from RMB1,193.6 million in 2017, primarily due to the reduced number of A-share IPOs completed in the market, and the long cycle of our equity underwriting projects.

Income from futures brokerage business decreased by 25.2% to RMB397.5 million in 2018 from RMB531.4 million in 2017, primarily due to a decrease in the commission rates for our futures brokerage business as a result of the increased competition in the overall market of the futures brokerage business, partially offset by an increase in our futures brokerage trading volume.

Income from financial advisory business decreased by 26.4% to RMB251.8 million in 2018 from RMB342.2 million in 2017, primarily due to a decrease in our NEEQ recommendation and private placement services, as market demand for these services decreased as a result of unfavorable market conditions. This decrease was partially offset by an increase in the income from our M&A financial advisory business, as we increased our talent acquisition and client development efforts.

Comparisons between 2017 and 2016

Our fee and commission income decreased by 24.3% to RMB8,748.5 million in 2017 from RMB11,554.1 million in 2016. This was primarily as a result of decreases in the fee and commission income from our securities brokerage, asset management and underwriting and sponsorship businesses, partially offset by an increase in the fee and commission income from our futures brokerage business.

Income from securities brokerage business decreased by 22.8% to RMB5,348.7 million in 2017 from RMB6,927.0 million in 2016, primarily due to cautious investor sentiment and increasing price competition over commission rates, which contributed to the decreases in our securities brokerage trading volume and brokerage commission rates. In 2017, our brokerage trading volume of stocks and funds decreased to RMB9,089.2 billion from RMB10,960.6 billion in 2016. In 2017, our average securities brokerage commission rate decreased to 4.00bps from 4.57bps in 2016.

Income from asset management business decreased by 28.0% to RMB1,332.6 million in 2017 from RMB1,850.0 million in 2016, primarily due to a decrease in the average fee rate of our asset management schemes, partially offset by an increase in the AUM of our asset management schemes.

Income from underwriting and sponsorship business decreased by 30.9% to RMB1,193.6 million in 2017 from RMB1,727.5 million in 2016, primarily due to a contraction of the debt financing market in China, which led to a decrease in the aggregate amount of debt securities underwritten by us as a lead underwriter from RMB117.7 billion in 2016 to RMB40.8 billion in 2017, while our equity underwriting income as a lead underwriter remained relatively stable.

Income from futures brokerage business increased by 11.8% to RMB531.4 million in 2017 from RMB475.5 million in 2016, primarily due to an increase in the commission rate of our futures brokerage business, partially offset by a decrease in our future brokerage trading volumes.

Income from financial advisory business decreased by 40.4% to RMB342.2 million in 2017 from RMB574.1 million in 2016, primarily due to a decrease in our NEEQ recommendation and private placement services, as market demand for these services decreased as a result of unfavorable market conditions.

Interest Income

Comparisons between 2018 and 2017

Our interest income increased by 16.1% to RMB9,450.9 million in 2018 from RMB8,139.4 million in 2017. This was primarily as a result of an increase in the interest income from securities-backed lending business and other financial assets held under resale agreements.

Interest income from financial institutions decreased by 10.9% to RMB2,414.8 million in 2018 from RMB2,711.6 million in 2017, due primarily to a decrease in the cash balances held on behalf of our brokerage clients, resulting from the weak investor sentiment in the stock market.

Interest income from margin financing and securities lending decreased by 10.6% to RMB3,631.8 million in 2018 from RMB4,063.7 million in 2017, due primarily to a decrease in the balance of our margin loans and securities lent, resulting from a general decline in market channel as a result of unfavorable market conditions.

Interest income from securities-backed lending increased significantly to RMB2,858.3 million in 2018 from RMB1,065.5 million in 2017, due primarily to the fast growth of our stock-backed lending business to meet the increasing market demand, and an increase in the average interest rates of our stock-backed lending business as a result of changes to our pricing strategies.

Interest income from other financial assets held under resale agreements increased by 82.9% to RMB546.0 million in 2018 from RMB298.6 million in 2017, as we increased the scale of our bond resale transactions to manage our liquidity.

Comparisons between 2017 and 2016

Our interest income increased by 12.2% to RMB8,139.4 million in 2017 from RMB7,254.5 million in 2016. This was primarily as a result of increases in interest income from securities-backed lending business and other financial assets held under resale agreements.

Interest income from financial institutions remained relatively stable in 2016 and 2017.

Interest income from margin financing and securities lending decreased by 4.6% to RMB4,063.7 million in 2017 from RMB4,261.7 million in 2016, due primarily to a decrease in the interest rate of our margin financing and securities lending as a result of increased price competition.

Interest income from securities-backed lending increased significantly to RMB1,065.5 million in 2017 from RMB175.3 million in 2016, due primarily to the fast growth of our stock-backed lending business to meet the increasing market demand. The balance of our stock-backed lending increased to RMB32,332.5 million as of December 31, 2017 from RMB5,976.9 million as of December 31, 2016.

Interest income from other financial assets held under resale agreements increased significantly to RMB298.6 million in 2017 from RMB114.3 million in 2016, as we increased the scale of our bond resale transactions to manage our liquidity.

Net Investment Gains

Comparisons between 2018 and 2017

Our net investment gains increased by 50.5% to RMB5,644.6 million in 2018 from RMB3,749.6 million in 2017. This was primarily as a result of an increase in our investments in fixed-income securities in our FICC sales and trading business.

Comparisons between 2017 and 2016

Our net investment gains increased by 40.3% to RMB3,749.6 million in 2017 from RMB2,672.4 million in 2016. This was primarily as a result of the combination of the following:

- a decrease in net realized losses from disposal of financial instruments at fair value through profit or loss from RMB1,742.8 million in 2016 to RMB737.4 million in 2017, primarily due to an increase in the gains from the disposal of our investments in equity securities and a decrease in the losses incurred in the disposal of fixed-income securities;
- change in unrealized fair value changes of financial instruments at fair value through profit or loss from a loss of RMB943.9 million in 2016 to RMB123.0 million in 2017, primarily due to an increase in the fair value of our fixed-income securities investments as a result of increased balance of our fixed-income securities;
- an increase in dividend income and interest income from available-for-sale financial assets from RMB883.7 million in 2016 to RMB1,464.4 million in 2017, primarily due to an increase in the interest income from our fixed-income securities investments as a result of increased balance of our fixed income securities and increased debt investments;
- change in unrealized fair value changes of derivative financial instruments from a loss of RMB74.1 million in 2016 to a gain of RMB33.4 million in 2017, primarily due to an increase in the fair value of our interest rate contracts and precious metal futures; and
- an increase in net realized gains from disposal of derivative financial instruments from RMB57.2 million in 2016 to RMB81.9 million in 2017, primarily due to an increase in the gains from the disposal of our treasury futures investments.

These increases and changes were partially offset by the following:

- a decrease in dividend income and interest income from financial instruments at fair value through profit or loss from RMB3,501.0 million in 2016 to RMB2,329.5 million in 2017, primarily due to a significant decrease in the average balance of our investments in mutual funds, reflecting our investment and asset allocation decisions; and
- a decrease in net realized gains from disposal of available-for-sale financial assets from RMB951.9 million in 2016 to RMB667.2 million in 2017, primarily due to a decrease in the gains from the disposal of our equity investments in our principal investment business.

Other Income and Gains

Comparisons between 2018 and 2017

Our other income and gains increased significantly to RMB2,594.8 million in 2018 from RMB287.1 million in 2017. This was primarily due to an increase in the income from commodity sales, resulting from an increase in our basis trading, as we built a new team to actively conduct such trading as part of our FICC sales and trading business.

Comparisons between 2017 and 2016

Our other income and gains increased by 20.7% to RMB287.1 million in 2017 from RMB237.9 million in 2016. This was primarily due to: (i) an increase in the income from commodity sales, resulting from an increase in our basis trading as we sought to expand our FICC sales and trading business; and (ii) an increase in the rental income from external parties that leased our properties.

Total Expenses

Comparisons between 2018 and 2017

Our total expenses increased by 25.7% to RMB19,133.8 million in 2018 from RMB15,220.3 million in 2017. This was primarily due to: (i) an increase in the interest expenses, resulting from increases in the scale of financial assets sold under repurchase agreements, long-term bonds and short-term debt instruments issued; and (ii) an increase in the other operating expenses, due to an increase in the cost of commodity trading business in our basis trading activities, which was in line with the increase in the income from commodity sales. These increases were partially offset by a decrease in the fee and commission expenses.

Comparisons between 2017 and 2016

Our total expenses decreased by 2.1% to RMB15,220.3 million in 2017 from RMB15,545.3 million in 2016. This was primarily due to: (i) a decrease in the performance-based staff costs; (ii) a decrease in the tax and surcharges; and (iii) a decrease in the fee and commission expenses. These decreases were partially offset by an increase in the interest expenses as a result of our increased financing costs and repurchase transactions to manage our liquidity.

Fee and Commission Expenses

Comparisons between 2018 and 2017

Our fee and commission expenses decreased by 30.9% to RMB946.6 million in 2018 from RMB1,370.2 million in 2017. This was primarily due to: (i) a decrease in the expenses incurred in our

securities brokerage business, which was in line with the decrease in the fee and commission income from our securities brokerage business due to unfavorable market conditions; and (ii) a decrease in the expenses incurred in our securities underwriting business, which was in line with the decrease in the fee and commission income from our securities underwriting business.

Comparisons between 2017 and 2016

Our fee and commission expenses decreased by 17.0% to RMB1,370.2 million in 2017 from RMB1,650.9 million in 2016. This was primarily due to: (i) a decrease in the expenses incurred in our securities brokerage business, which was in line with the decrease in the fee and commission income from our securities brokerage business due to unfavorable stock market conditions; and (ii) a decrease in the expenses incurred in our securities underwriting business, which was in line with the decrease in the fee and commission income from our securities underwriting business.

Interest Expenses

Comparisons between 2018 and 2017

Our interest expenses increased by 26.6% to RMB8,089.1 million in 2018 from RMB6,389.6 million in 2017. This was primarily due to: (i) an increase in the interest expenses in financial assets sold under repurchase agreements, resulting from an increase in the scale of our financial assets sold under repurchase agreements; (ii) an increase in the interest expenses in long-term bonds, resulting from an increase in the average balance of our long-term bonds; and (iii) an increase in the interest expenses in short-term debt instruments issued, resulting from a net increase of our short-term structured notes. The increases in the average balance of our long-term bonds and short-term structured notes are in line with the expansion of our stock-backed lending, principal investment and proprietary trading businesses. See "—Indebtedness."

Comparisons between 2017 and 2016

Our interest expenses increased by 18.6% to RMB6,389.6 million in 2017 from RMB5,387.0 million in 2016. This was primarily due to: (i) an increase in the interest expenses for long-term bonds, as a result of an increase in the average balance of our long-term bonds; and (ii) an increase in the interest expenses for financial assets sold under repurchase agreements, as a result of an increase in the scale of our financial assets sold under repurchase agreements. The increase in the average balance of our long-term bonds is in line with the expansion of our stock-backed lending, principal investment and proprietary trading businesses. See "—Indebtedness."

Staff Costs

Comparisons between 2018 and 2017

Our staff costs increased by 2.7% to RMB5,177.9 million in 2018 from RMB5,040.6 million in 2017. This was primarily due to an increase in the performance-based compensation, which was in line with the increase in our total revenue and other income in 2018 compared to 2017.

Comparisons between 2017 and 2016

Our staff costs decreased by 12.5% to RMB5,040.6 million in 2017 from RMB5,760.9 million in 2016. This was primarily due to a decrease in the performance-based compensation, which was in line with the decrease in our total revenue and other income in 2017.

Depreciation and Amortization Expenses

Comparisons between 2018 and 2017

Our depreciation and amortization expenses remained stable in 2017 and 2018.

Comparisons between 2017 and 2016

Our depreciation and amortization expenses increased by 3.3% to RMB295.5 million in 2017 from RMB286.0 million in 2016. This was primarily due to: (i) an increase in the depreciation of property and equipment; and (ii) an increase in the amortization of other intangible assets such as computer software.

Tax and Surcharges

Comparisons between 2018 and 2017

Our tax and surcharges increased by 14.7% to RMB130.4 million in 2018 from RMB113.7 million in 2017, which was mainly due to increases in VAT surcharges as a result of the increase in our total revenue.

Comparisons between 2017 and 2016

Our tax and surcharges decreased by 73.2% to RMB113.7 million in 2017 from RMB424.8 million in 2016, which was mainly due to the transition from business tax to VAT in the PRC since May 2016. Before May 2016, our tax and surcharges included business tax, and since then, it no longer includes business tax.

Other Operating Expenses

Comparisons between 2018 and 2017

Our other operating expenses increased significantly to RMB3,833.2 million in 2018 from RMB1,582.2 million in the same period in 2017. This was primarily due to an increase in the cost of commodity trading business as a result of an increase in the scale of our basis trading activities, which was in line with the increase in the income from commodity sales.

Comparisons between 2017 and 2016

Our other operating expenses remained relatively stable in 2016 and 2017.

Provision for/(reversal of) Impairment Losses

Comparisons between 2018 and 2017

Our provision for impairment losses increased by 53.7% to RMB658.7 million in 2018 from RMB428.5 million in 2017, primarily due to an increase in the scale of our stock-backed lending business, and the risk of certain of our stock-backed loans and debt investments increased.

Comparisons between 2017 and 2016

Our provision for impairment losses decreased by 4.9% to RMB428.5 million in 2017 from RMB450.8 million in 2016, due to a decrease in the overall provision for impairment losses on financial assets as a result of improved A-share market conditions.

Operating Profit

Comparisons between 2018 and 2017

As a result of the foregoing, our operating profit decreased by 12.8% to RMB4,975.8 million in 2018 from RMB5,704.3 million in the same period in 2017.

Comparisons between 2017 and 2016

As a result of the foregoing, our operating profit decreased by 7.6% to RMB5,704.3 million in 2017 from RMB6,173.6 million in 2016.

Share of Profit of Associates and Joint Ventures

Comparisons between 2018 and 2017

Our share of profit of associates and joint ventures decreased by 5.2% to RMB211.5 million in 2018 from RMB223.2 million in 2017. This was primarily due to a decrease in operating profits of certain associates and joint ventures.

Comparisons between 2017 and 2016

Our share of profit of associates and joint ventures increased by 5.4% to RMB223.2 million in 2017 from RMB211.7 million in 2016. This was primarily due to an increase in the overall operating profits of our associates and joint ventures as we increased investments in an associate.

Profit before Income Tax

Comparisons between 2018 and 2017

As a result of the foregoing, our profit before income tax decreased by 12.5% to RMB5,187.3 million in 2018 from RMB5,927.5 million in 2017.

Comparisons between 2017 and 2016

As a result of the foregoing, our profit before income tax decreased by 7.2% to RMB5,927.5 million in 2017 from RMB6,385.3 million in 2016.

Income Tax Expense

Comparisons between 2018 and 2017

Our income tax expense decreased by 21.8% to RMB939.5 million in 2018 from RMB1,201.7 million in 2017. This was primarily as a result of a decrease in our taxable income in 2018 compared to 2017. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) decreased to 18.1% in 2018 from 20.3% in 2017, primarily due to an increase in the contribution of non-taxable income to our profits, including (i) dividend income from our investment in equity securities held for over one year and (ii) interest income from treasury bonds and municipal bonds.

Comparisons between 2017 and 2016

Our income tax expenses increased by 40.2% to RMB1,201.7 million in 2017 from RMB857.0 million in 2016. This was primarily due to an increase in our taxable income in 2017

compared to 2016. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) increased to 20.3% in 2017 from 13.4% in 2016, primarily due to a decrease in the contribution of non-taxable income to our profits, as we received a large amount of non-taxable interest and dividend income in 2016, including (i) dividend income from investment in equity securities held for over one year, and (ii) interest income from treasury bonds and municipal bonds.

Profit and Profit Margins

The following table sets forth certain key indicators of our profitability for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions except percentages)		
Operating profit[(1)]	6,173.6	5,704.3	4,975.8
Operating margin[(2)]	28.4%	27.3%	20.6%
Adjusted operating margin[(3)]	42.1%	43.3%	33.0%
Profit for the year	5,528.3	4,725.8	4,247.8
Net margin[(4)]	25.5%	22.6%	17.6%
Adjusted net margin[(5)]	37.7%	35.9%	28.2%

(1) Operating profit = total revenue and other income – total expenses.

(2) Operating margin = operating profit/total revenue and other income.

(3) Adjusted operating margin = operating profit/(total revenue and other income – fee and commission expenses and interest expenses). Adjusted operating margin is not a standard measure under IFRS, but is presented here because PRC securities firms present their operating revenue after deducting fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that adjusted operating margin provides a meaningful indicator of results of operations that is more comparable to other PRC listed securities firms in China due to different presentation requirements between PRC GAAP and IFRS. Prospective investors should be aware that the adjusted operating margin presented in this document may not be comparable with other similarly titled measures reported by other companies due to different calculation methods or assumptions.

(4) Net margin = profit for the year / total revenue and other income.

(5) Adjusted net margin = profit for the year/(total revenue and other income – fee and commission expenses and interest expenses). Adjusted net margin is not a standard measure under IFRS, but is presented here because PRC securities firms present their operating revenue after deducting fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that the adjusted net margin provides a meaningful indicator of results of operations that is more comparable to other PRC listed securities firms due to different presentation requirements between PRC GAAP and IFRS. Prospective investors should be aware that the adjusted net margin presented in this document may not be comparable with other similarly titled measures reported by other companies due to different calculation methods or assumptions.

Comparisons between 2018 and 2017

Our operating profit decreased by 12.8% to RMB4,975.8 million in 2018 from RMB5,704.3 million in 2017, while our profit for the year decreased by 10.1% to RMB4,247.8 million in 2018 from RMB4,725.8 million in 2017. This was primarily due to decreases in the operating profit of our investment banking, principal investment and personal finance businesses, partially offset by increases in the operating profit of our institutional services and trading and investment management businesses.

The decrease in our operating margin, adjusted operating margin, net margin and adjusted net margin in 2018 was primarily due to decreases in the operating margin of our principal investment and personal finance businesses.

Comparisons between 2017 and 2016

Our operating profit decreased by 7.6% to RMB5,704.3 million in 2017 from RMB6,173.6 million in 2016, while our profit for the year decreased by 14.5% to RMB4,725.8 million

in 2017 from RMB5,528.3 million in 2016. This was primarily due to decreases in the operating profit of our investment banking, personal finance and investment management businesses, partially offset by increases in the operating profit of our institutional services and trading business.

Our operating margin, net margin and adjusted net margin decreased in 2017, primarily due to decreases in the operating margin of our investment banking, principal investment and investment management businesses.

SUMMARY SEGMENT RESULTS

We have four principal business segments: enterprise finance, personal finance, institutional services and trading and investment management. The following table sets forth our segment revenue and other income, segment expenses, segment profit before income tax and segment margin (which is calculated as the segment profit before income tax divided by the segment revenue and other income) before intersegment eliminations for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Enterprise finance			
Segment revenue and other income	3,405.7	2,838.1	2,166.2
Segment expenses	1,858.4	1,671.9	1,473.4
Segment profit before income tax	1,759.0	1,389.4	904.3
Segment margin	51.6%	49.0%	41.7%
Personal finance			
Segment revenue and other income	12,586.8	11,549.7	11,137.7
Segment expenses	9,227.4	8,367.9	9,333.4
Segment profit before income tax	3,359.4	3,181.8	1,804.3
Segment margin	26.7%	27.5%	16.2%
Institutional services and trading			
Segment revenue and other income	3,102.8	4,487.4	8,864.0
Segment expenses	2,706.3	3,669.0	7,191.0
Segment profit before income tax	396.5	818.4	1,673.0
Segment margin	12.8%	18.2%	18.9%
Investment management			
Segment revenue and other income	2,623.6	2,049.4	1,941.7
Segment expenses	1,753.2	1,511.5	1,136.0
Segment profit before income tax	870.4	537.9	805.7
Segment margin	33.2%	26.2%	41.5%

Enterprise Finance

Our enterprise finance segment consists of the investment banking business and the principal investment business.

Investment banking business

Segment revenue and other income from our investment banking business mainly consists of underwriting and sponsorship fee and commission income as well as financial advisory income. Segment expenses of the investment banking business mainly consist of staff costs and other operating expenses relating to the investment banking business.

The following table sets forth selected financial information concerning the investment banking business for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Segment revenue and other income	2,362.4	1,589.7	955.7
Fee and commission income	2,257.1	1,478.0	889.3
Interest income	21.3	54.4	33.4
Net investment gains	76.9	55.1	31.0
Other income and gains	7.1	2.2	2.0
Segment expenses	1,339.3	999.1	586.5
Segment profit before income tax	1,023.1	590.6	369.2
Segment margin	43.3%	37.2%	38.6%

Comparisons between 2018 and 2017

Segment profit before income tax of the investment banking business decreased by 37.5% from RMB590.6 million in 2017 to RMB369.2 million in 2018. This was primarily due to:

- segment revenue and other income decreased by 39.9%, mainly due to a decrease in the income of our underwriting business as a result of the reduced number of completed A-share IPOs in the market, and the long cycle of our equity underwriting projects; and
- segment expenses decreased by 41.3%, mainly due to a decrease in the performance-based compensation relating to the investment banking business in line with a decrease in the segment revenue and other income.

Segment margin of our investment banking business increased from 37.2% in 2017 to 38.6% in 2018.

Comparisons between 2017 and 2016

Segment profit before income tax of the investment banking business decreased by 42.3% from RMB1,023.1 million in 2016 to RMB590.6 million in 2017. This was primarily due to:

- segment revenue and other income decreased by 32.7%, mainly due to a decrease in the income of our debt financing business, resulting from a contraction of the debt financing market in China, which led to a decrease in the aggregate amount of debt securities underwritten by us as a lead underwriter from RMB117.7 billion in 2016 to RMB40.8 billion in 2017, while our equity underwriting income remained relatively stable; and
- segment expenses decreased by 25.4%, mainly due to a decrease in the performance-based staff costs relating to the investment banking business.

Segment margin of the investment banking business decreased from 43.3% in 2016 to 37.2% in 2017.

Principal investment business

Segment revenue and other income from our principal investment business mainly relates to net investment gains of financial assets measured at fair value through profit or loss, net investment gains

of financial assets measured at fair value through other comprehensive income and net investment gains of financial assets at amortized costs. Segment expenses of the principal investment business mainly consist of interest expenses, staff costs and other operating expenses relating to the principal investment business. Segment profit before income tax of our principal investment business also consists of share of results of our associates and joint ventures including Fullgoal Fund.

The following table sets forth selected financial information concerning the principal investment business for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Segment revenue and other income	1,043.3	1,248.4	1,210.5
Fee and commission income	68.3	78.7	66.2
Interest income	69.3	82.6	74.8
Net investment gains	759.3	910.5	957.4
Other income and gains	146.4	176.6	112.1
Segment expenses	519.1	672.8	886.9
Segment profit before income tax	735.9	798.8	535.1
Segment margin	70.5%	64.0%	44.2%

Comparisons between 2018 and 2017

Segment profit before income tax of the principal investment business decreased by 33.0% from RMB798.8 million in 2017 to RMB535.1 million in 2018. This was primarily due to:

- segment revenue and other income decreased slightly by 3.0%, mainly due to a decrease in non-recurring revenue such as government grants, partially offset by an increase in the net investment gains from our debt investments, as a result of an increase in the scale of debt investments; and
- segment expenses increased by 31.8%, mainly due to an increase in the scale of our debt financing used to fund the principal investment business, which led to an increase in the interest expenses.

Segment margin of the principal investment business decreased from 64.0% in 2017 to 44.2% in 2018.

Comparisons between 2017 and 2016

Segment profit before income tax of the principal investment business increased by 8.5% from RMB735.9 million in 2016 to RMB798.8 million in 2017. This was primarily due to:

- segment revenue and other income increased by 19.7%, mainly due to an increase in the net investment gains as a result of an increase in our debt investments; and
- segment expenses increased by 29.6%, mainly due to an increase in our financing costs to fund the principal investment business, leading to an increase in the interest expenses.

Segment margin of the principal investment business decreased from 70.5% in 2016 to 64.0% in 2017.

Personal Finance

Segment revenue and other income from our personal finance segment mainly consists of fee and commission income from the securities brokerage business, interest income from margin financing and securities lending, interest income from securities-backed lending and interest income from cash held on behalf of brokerage clients, among other things. Segment expenses of the personal finance segment mainly consist of fee and commission expenses from the securities brokerage business as well as interest expenses, staff costs, impairment losses and other operating expenses relating to the personal finance segment.

The following table sets forth selected financial information concerning the personal finance segment for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Segment revenue and other income	12,586.8	11,549.7	11,137.7
Fee and commission income	6,240.5	4,935.5	3,368.8
Interest income	6,279.8	6,547.7	7,776.8
Net investment gains/(losses)	32.6	33.6	(55.3)
Other income and gains	33.9	32.9	47.4
Segment expenses	9,227.4	8,367.9	9,333.4
Segment profit before income tax	3,359.4	3,181.8	1,804.3
Segment margin	26.7%	27.5%	16.2%

Comparisons between 2018 and 2017

Segment profit before income tax of the personal finance segment decreased by 43.3% from RMB3,181.8 million in 2017 to RMB1,804.3 million in 2018. This was primarily due to:

- segment revenue and other income decreased by 3.6%, mainly due to decreases in fee and commission income of our securities brokerage business and interest income from our margin financing and securities lending business as a result of unfavorable market conditions, which was partially offset by an increase in interest income, as a result of increases in the scale and interest rates of our stock-backed lending business; and
- segment expenses increased by 11.5%, mainly because we increased the scale of financing for our stock-backed lending business, and the corresponding financing costs increased, and due to an increase in provision for impairment losses because of increased risk of certain of our stock-backed lending projects, partially offset by a decrease in the fee and commission expenses.

Segment margin of the personal finance segment decreased from 27.5% in 2017 to 16.2% in 2018.

Comparisons between 2017 and 2016

Segment profit before income tax of the personal finance segment decreased by 5.3% from RMB3,359.4 million in 2016 to RMB3,181.8 million in 2017. This was primarily due to:

- segment revenue and other income decreased by 8.2%, mainly due to the decrease in the fee and commission income from the securities brokerage business, as a result of cautious investor sentiment and increasing price competition over commission rates, which

contributed to the decreases in our brokerage trading volume and brokerage commission rates. In 2017, our brokerage trading volume of stocks and funds decreased to RMB9,089.2 billion from RMB10,960.6 billion in 2016. In 2017, our average securities brokerage commission rate decreased to 4.00bps from 4.57bps in 2016; and

- segment expenses decreased by 9.3%, mainly due to a decrease in the performance-based compensation relating to the personal finance segment in line with a decrease in the segment revenue and other income.

Segment margin of the personal finance segment increased from 26.7% in 2016 to 27.5% in 2017.

Institutional Services and Trading

Segment revenue and other income from our institutional services and trading segment mainly relates to commission income from leasing of trading units, interest income from the margin financing and securities lending business, interest income from the securities-backed lending business, interest income from financial institutions, interest income from the cash held on behalf of our brokerage clients and income from commodity sales, as well as net investment gains from our proprietary trading business and liquidity management. Segment expenses of the institutional services and trading segment mainly consist of interest expenses, staff costs, provision for impairment losses and other operating expenses relating to the institutional services and trading segment.

The following table sets forth selected financial information concerning the institutional services and trading segment for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Segment revenue and other income	3,102.8	4,487.4	8,864.0
Fee and commission income	1,054.2	891.8	819.5
Interest income	638.9	1,056.2	1,045.4
Net investment gains	1,387.4	2,496.1	4,587.2
Other income and gains	22.3	43.3	2,411.9
Segment expenses	2,706.3	3,669.0	7,191.0
Segment profit before income tax	396.5	818.4	1,673.0
Segment margin	12.8%	18.2%	18.9%
—Proprietary trading	(11.9)%	8.0%	17.4%

Comparisons between 2018 and 2017

Segment profit before income tax of the institutional services and trading segment increased by 104.4% from RMB818.4 million in 2017 to RMB1,673.0 million in 2018. This was primarily due to:

- segment revenue and other income increased by 97.5%, mainly due to an increase in the net investment gains from the fixed-income securities trading business as a result of the increase in its trading scale, and an increase in the income from commodities sales as the scale of our basis trading increased; and

- segment expenses increased by 96.0%, mainly due to an increase in the cost of sales of spot commodities which is in line with the increase in income from commodity sales and an increase in the interest expenses as a result of an increase in our financing costs to fund the institutional services and trading segment.

Segment margin of the institutional services and trading segment increased from 18.2% in 2017 to 18.9% in 2018.

The segment margin of our proprietary trading business increased from 8.0% in 2017 to 17.4% in 2018, mainly due to (i) the increases in our net investment gains from FICC sales and trading business resulting from our increased investment in fixed-income securities as part of our investment strategies, and (ii) our decreased average financing interest rate as a result of our efforts to optimize the debt structure such as conducting bond repurchase transactions.

Comparisons between 2017 and 2016

Segment profit before income tax of the institutional services and trading segment increased significantly from RMB396.5 million in 2016 to RMB818.4 million in 2017. This was primarily due to:

- segment revenue and other income increased by 44.6%, mainly due to an increase in the net investment gains from our fixed-income securities trading business as we increased the trading scale of fixed-income securities, and an increase in the net investment gains from our investments in equity securities; and
- segment expenses increased by 35.6%, mainly due to an increase in the interest expenses as a result of an increase in our financing costs to fund the institutional services and trading segment.

Segment margin of the institutional services and trading segment increased from 12.8% in 2016 to 18.2% in 2017.

The segment margin of our proprietary trading business increased from negative 11.9% in 2016 to 8.0% in 2017, mainly due to (i) the increases in our net investment gains from FICC sales and trading business resulting from our increased investment in fixed-income securities as part of our investment strategies, and (ii) the increase in the net investment gains from our investments in equity securities due to improved market conditions.

Investment Management

Segment revenue and other income from our investment management segment mainly consists of fee and commission income from the assets management and fund management businesses, and interest income from consolidated structured entities. Segment expenses of the investment management segment mainly consist of staff costs, other operating expenses and interest expenses from consolidated structured entities relating to the investment management segment.

The following table sets forth selected financial information concerning the investment management segment for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Segment revenue and other income	2,623.6	2,049.4	1,941.7
Fee and commission income	1,934.0	1,364.5	1,275.5
Interest income	245.2	398.5	520.5
Net investment gains	416.2	254.3	124.3
Other income and gains	28.2	32.1	21.4
Segment expenses	1,753.2	1,511.5	1,136.0
Segment profit before income tax	870.4	537.9	805.7
Segment margin	33.2%	26.2%	41.5%

Comparisons between 2018 and 2017

Segment profit before income tax of the investment management segment increased by 49.8% from RMB537.9 million in 2017 to RMB805.7 million in 2018. This was primarily due to:

- segment revenue and other income decreased by 5.3%, mainly due to a decrease in the net investment gains from our consolidated structured entities that engage in the investment management business, and a decrease in management fee income recognized of our mutual fund schemes as a result of unfavorable market conditions, partially offset by an increase in the interest income of our consolidated structured entities; and
- segment expenses decreased by 24.8%, mainly due to a decrease in the performance-based compensation and a decrease in the interest expenses of our consolidated structured entities. We modified the standards of reviewing and allocating performance-based compensation, which led to a decrease in the performance-based remuneration for distribution in the current period.

Segment margin of the investment management segment increased from 26.2% in 2017 to 41.5% in 2018.

Comparisons between 2017 and 2016

Segment profit before income tax of the investment management segment decreased by 38.2% from RMB870.4 million in 2016 to RMB537.9 million in 2017. This was primarily due to:

- segment revenue and other income decreased by 21.9%, mainly due to a decrease in the average fee rate of our asset management schemes, partially offset by an increase in the AUM of our asset management schemes; and
- segment expenses decreased by 13.8%, mainly due to reduced provision for impairment losses on assets.

Segment margin of the investment management segment decreased from 33.2% in 2016 to 26.2% in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We have funded our working capital and other capital requirements primarily from cash generated from our business operations and have also relied on a diverse range of money-market and capital-market financing, including primarily the following:

- *Interbank lending*: Shenwan Hongyuan Securities obtains short-term liquidity from the PRC interbank market and, as of February 28, 2019, the balance of our interbank lending was RMB6,419.3 million;
- *Placements from China Securities Finance*: Shenwan Hongyuan Securities has access to financing from China Securities Finance for margin refinancing and, as of February 28, 2019, the balance of our placements from China Securities Finance was RMB2,300.0 million;
- *Short-term debt instruments*: Shenwan Hongyuan Securities manages its short-term liquidity by issuing short-term corporate bonds and structured notes with a term not exceeding one year and, as of February 28, 2019, the aggregate balance of our short-term debt instruments was RMB7,273.0 million;
- *Long-term bonds*: Our Company and Shenwan Hongyuan Securities finance our long-term business expansion by issuing corporate bonds, subordinated bonds and structured notes with a term exceeding one year and, as of February 28, 2019, the aggregate balance of our long-term bonds was RMB90,198.1 million; and
- *Loans and borrowings*: We primarily obtain long-term loans from trust companies and, as of February 28, 2019, the aggregate balance of our loans and borrowings was RMB1,549.3 million.

As of December 31, 2018, we had aggregate cash and cash equivalents of RMB39,786.7 million.

When determining the amount of capital and other resources to be allocated to each business line, we mainly take into account our growth strategy and business focus, the capital requirements and estimated return for each business and applicable regulatory requirements, such as those in relation to capital adequacy, liquidity and risk management.

After the **[REDACTED]**, we intend to finance our future capital requirements through the same sources of funding as discussed above, together with the net **[REDACTED]** we expect to receive from the **[REDACTED]** and any follow-on equity offering we may conduct. We do not anticipate any changes to the availability of financing to fund our operations in the future, although there is no assurance that we will be able to access any financing on favorable terms or at all.

Taking into account the net **[REDACTED]** from the **[REDACTED]** and the financial resources available to us, including cash and bank balances, repurchase transactions, and proceeds from short-term debt instruments and long-term bonds, our Directors believe that we have sufficient working capital for our present requirements, that is for at least 12 months from the date of this document.

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

Cash Flows

The following table sets forth selected cash flow statement information for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Net cash generated from / (used in) operating activities	5,181.7	(5,995.6)	(9,397.0)
Net cash used in investing activities	(8,190.1)	(8,063.5)	(3,609.3)
Net cash generated from financing activities	10,009.5	12,759.8	25,797.1
Net increase / (decrease) in cash and cash equivalents	**7,001.1**	**(1,299.3)**	**12,790.8**
Cash and cash equivalents at the beginning of the year	21,276.0	28,288.4	26,991.1
Effect of foreign exchange rate changes	11.3	2.0	4.8
Cash and cash equivalents at the end of the year	**28,288.4**	**26,991.1**	**39,786.7**

Operating activities

Cash flow from operating activities reflects: (i) profit before tax adjusted for non-cash and non-operating items (such as depreciation and amortization and impairment losses); (ii) the effects of movements in working capital (such as increases or decreases in margin accounts receivable, financial assets at fair value through profit or loss, cash held on behalf of brokerage clients, accounts payable by brokerage clients, financial assets held under resale agreements and financial assets sold under resale agreements); and (iii) other cash items (such as income tax paid).

As an investment holding group focused on securities businesses, we have liquidity needs for certain of our businesses such as margin financing and securities lending, as well as stock-backed lending, in the ordinary course of business. We meet such liquidity needs primarily through cash generated from operating activities and debt financing. Primarily due to our substantial operating cash outflow to support the expansion of our fixed-income portfolio in our proprietary trading business and the rapid growth of our stock-backed lending business, we had net cash outflows from operating activities in 2017 and 2018. Despite this, we believe that we had strong ability to generate cash flows during the Track Record Period due to operating profits and cash inflows arising from our financing activities. Our operating cash flows before movements in working capital were RMB11,435.6 million, RMB10,750.0 million and RMB11,138.1 million, respectively, in 2016, 2017 and 2018. In addition, our net current assets were RMB84,098.8 million, RMB78,348.0 million and RMB92,473.7 million as of December 31, 2016, 2017 and 2018, respectively, which also demonstrated our strong ability to generate working capital during the Track Record Period.

In 2018, we had net cash used in operating activities of RMB9,397.0 million, resulting from profit before income tax of RMB5,187.3 million, adjustments for non-cash items and negative movements in working capital. Our negative movements in working capital were primarily due to: (i) an increase in financial instruments at fair value through profit or loss of RMB36,006.4 million, which mainly reflects an increase in the scale of our investments in fixed-income securities; and (ii) an increase in financial assets held under resale agreements of RMB9,052.1 million, which mainly reflects an increase in the balance of our securities-backed loans. These negative movements were partially offset by: (i) an increase in financial assets sold under repurchase agreements of RMB14,512.4 million, mainly as a result of an increase in the scale of our debt repurchase transactions; and (ii) a decrease in margin accounts receivable of RMB12,683.3 million, mainly as a result of a decrease in the scale of our margin financing and securities lending business.

In 2017, we had net cash used in operating activities of RMB5,995.6 million, resulting from profit before income tax of RMB5,927.5 million, adjustments for non-cash items and negative movements in working capital. Our negative movements in working capital primarily reflected: (i) an increase in financial assets held under resale agreements of RMB26,165.4 million mainly as a result of an increase in the balance of our stock-backed loans; (ii) a decrease in accounts payable to brokerage clients of RMB26,075.6 million, mainly as a result of a decrease in the scale of our securities brokerage business due to unfavorable market conditions; and (iii) an increase in financial instruments at fair value through profit or loss of RMB12,332.6 million, mainly as a result of an increase in the scale of our investments in fixed-income securities. These negative movements were partially offset by: (i) an increase in financial assets sold under repurchase agreements of RMB29,881.8 million, mainly as a result of an increase in the scale of our debt repurchase transactions; and (ii) a decrease in cash held on behalf of brokerage clients of RMB24,589.9 million, mainly as a result of a decrease in the scale of our securities brokerage business due to unfavorable market conditions.

In 2016, we had net cash generated from operating activities of RMB5,181.7 million, resulting from profit before income tax of RMB6,385.3 million, adjustments for non-cash items and negative movements in working capital. Our negative movements in working capital primarily reflected: (i) a decrease in accounts payable to brokerage clients of RMB43,076.2 million, mainly as a result of a decrease in the scale of our securities brokerage business due to unfavorable market conditions; (ii) a decrease in financial assets sold under repurchase agreements of RMB30,363.4 million, mainly as a result of a decrease in the scale of debt repurchase transactions; and (iii) an increase in financial assets held under resale agreements of RMB6,904.2 million, mainly as a result of an increase in the balance of our stock-backed lending loans. These positive movements were partially offset by: (i) a decrease in cash held on behalf of brokerage clients of RMB43,688.3 million, mainly as a result of a decrease in the scale of our securities brokerage business due to unfavorable market conditions; (ii) a decrease in financial instruments at fair value through profit or loss of RMB22,625.6 million, mainly as a result of a decrease in the investment scale of our funds; and (iii) a decrease in margin accounts receivable of RMB15,581.3 million, mainly as a result of a decrease in the balance of our margin loans and securities lent, resulting from a decrease in the market demand for margin financing and securities lending services in general.

Investing activities

Our cash outflows from investing activities consist primarily of purchases of properties and equipment, other intangible assets and other non-current assets, increases in investment in associates, purchases of available-for-sale financial assets / financial assets measured at fair value through other comprehensive income, and increases in restricted bank deposits. Our cash inflows from investing activities consist primarily of sales of properties and equipment and other intangible assets, dividends from associates, proceeds from sales of available-for-sale financial assets / financial assets measured at fair value through other comprehensive income, and decreases in restricted bank deposits.

In 2018, we had net cash used in investing activities of RMB3,609.3 million, primarily due to: (i) an increase in restricted bank deposits of RMB3,439.4 million, which mainly reflects an increase in our fixed-term deposits with a term of over three months; and (ii) purchases of financial assets at fair value through other comprehensive income of RMB2,425.3 million, which mainly reflects an increase in the scale of our investments in fixed-income securities. These cashflows were partially offset by net investment gains from financial assets at fair value through other comprehensive income of RMB1,693.7 million, and interest income from financial assets measured at amortized cost of

RMB806.3 million, which were mainly due to an increase in the interest income of our investments in fixed-income securities during the holding period.

In 2017, we had net cash used in investing activities of RMB8,063.5 million, primarily due to: (i) purchases of available-for-sale financial assets of RMB6,096.3 million, mainly as a result of an increase in the scale of our investments in fixed-income securities; and (ii) an increase in restricted bank deposits of RMB2,137.2 million, which mainly reflects an increase in our fixed-term deposit with a term of over three months. These cashflows were partially offset by net investment gains from available-for-sale financial assets of RMB1,919.7 million.

In 2016, we had net cash used in investing activities of RMB8,190.1 million, primarily due to purchases of available-for-sale financial assets of RMB13,788.3 million, mainly as a result of an increase in the scale of our investments in fixed-income securities. These cashflows were partially offset by: (i) a decrease in restricted bank deposits of RMB3,893.2 million, which mainly reflects a decrease in our fixed-term deposit with a term of over three months; and (ii) net investment gains from available-for-sale financial assets of RMB1,987.3 million.

Financing activities

Financing activities primarily include issuance of new shares, short-term debt instruments and long-term bonds, distribution of dividends to shareholders and payment of principal and interests on debts.

In 2018, our net cash generated from financing activities was RMB25,797.1 million, primarily due to: (i) proceeds from issuance of short-term debt instruments of RMB39,607.5 million; (ii) proceeds from issuance of long-term bonds of RMB38,835.2 million; and (iii) capital injection from issuance of ordinary shares of RMB11,982.3 million. These cashflows were partially offset by: (i) short-term debt instruments repaid of RMB41,632.7 million; and (ii) long-term bonds repaid of RMB17,249.7 million.

In 2017, our net cash generated from financing activities was RMB12,759.8 million, primarily due to: (i) the proceeds from issuance of short-term debt instruments of RMB26,451.4 million; and (ii) the proceeds from issuance of long-term bonds of RMB19,212.4 million. These cashflows were partially offset by: (i) long-term bonds repaid of RMB16,420.9 million; and (ii) short-term debt instruments repaid of RMB14,417.6 million.

In 2016, our net cash generated from financing activities was RMB10,009.5 million, primarily due to: (i) the proceeds from issuance of long-term bonds of RMB40,106.6 million; and (ii) the proceeds from issuance of short-term debt instruments of RMB9,648.7 million. These cashflows were partially offset by: (i) short-term debt instruments repaid of RMB30,793.9 million; (ii) long-term bonds repaid of RMB4,192.5 million; (iii) loans, bonds and debt instruments interests paid of RMB2,374.1 million; and (iv) dividends paid of RMB2,323.8 million.

Assets and Liabilities

In order to ensure appropriate liquidity management and capital allocation, we dynamically monitor the size and composition of our balance sheet. The major portion of our balance sheet consists of current assets and liabilities, due to the liquid nature of our business.

Current assets and liabilities

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

	As of December 31,			As of February 28,
	2016	2017	2018	2019
		(RMB in millions)		(unaudited)
Current assets				
Accounts receivable	1,466.7	1,525.4	1,237.6	928.9
Other receivables and prepayments	2,697.8	3,949.9	4,568.9	5,318.9
Margin accounts receivable	55,869.1	55,738.7	43,107.0	45,562.2
Available-for-sale financial assets	21,536.2	29,122.7	–	–
Financial assets held under resale agreements	14,357.3	33,570.7	45,087.1	38,096.7
Financial assets measured at amortized cost	–	–	4,451.3	5,116.7
Financial assets at fair value through other comprehensive income	–	–	21,996.6	22,033.5
Financial assets at fair value through profit or loss	34,936.3	49,362.5	89,887.9	93,209.9
Derivative financial assets	5.7	6.7	453.9	439.5
Clearing settlement funds	1,706.3	2,590.3	3,091.0	3,862.2
Cash held on behalf of brokerage clients	86,596.7	62,006.8	57,521.6	76,523.6
Cash and bank balances	23,260.1	22,374.7	25,286.4	27,546.7
Right-of-use assets	–	–	–	312.6
Total current assets	**242,432.2**	**260,248.4**	**296,689.3**	**318,951.4**
Current liabilities				
Loans and borrowings	255.2	2,106.3	717.6	898.5
Short-term debt instruments issued	3,211.6	15,245.3	13,220.1	7,273.0
Placements from other financial institutions	3,000.0	7,900.0	11,618.9	8,719.3
Financial liabilities at fair value through profit or loss	1,054.1	2,648.1	2,778.4	3,704.9
Accounts payable to brokerage clients	89,704.4	63,628.8	60,270.6	82,201.5
Employee benefits payable	2,921.8	1,781.8	1,450.2	1,543.1
Other payables and accruals	17,717.7	15,329.9	15,634.7	22,740.0
Current tax liabilities	917.4	296.0	778.7	419.0
Financial assets sold under repurchase agreements	33,576.7	56,409.5	74,871.9	72,941.5
Derivative financial liabilities	20.0	32.3	456.3	489.0
Contract liabilities	–	–	86.8	22.3
Lease liabilities	–	–	–	329.3
Long-term bonds due within one year	5,954.5	16,522.4	22,331.4	34,886.5
Total current liabilities	**158,333.4**	**181,900.4**	**204,215.6**	**236,167.9**
Net current assets	**84,098.8**	**78,348.0**	**92,473.7**	**82,783.5**

Our current assets consist primarily of financial assets at fair value through profit or loss, cash held on behalf of brokerage clients, financial assets held under resale agreements, margin accounts receivable, financial assets measured at fair value through other comprehensive income and cash and bank balances. Our current liabilities mainly include financial assets sold under repurchase agreements, accounts payable to brokerage clients, long-term bonds due within one year, other payables and accruals, short-term debt instruments issued and placements from other financial institutions. Our Directors confirm that we did not have any material default in payment of trade and non-trade payables during the Track Record Period.

We include various customer deposits as current assets, including cash held on behalf of brokerage clients. We include accounts payable to brokerage clients as current liabilities. Customer deposits fluctuate based on our customers' trading activities, financial market conditions and other factors extrinsic to our business; consequently, although we earn interest income from these deposits, customer deposits tend not to be a meaningful indicator of our financial condition or results of operations. See "—Assets and Liabilities—Current assets and liabilities—Adjusted current assets and liabilities (Non-IFRS measures)" below for information on our assets and liabilities excluding customer deposits in our brokerage business.

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

Our net current assets decreased by 10.5% to RMB82,783.5 million as of February 28, 2019 from RMB92,473.7 million as of December 31, 2018 because the increase in our total current liabilities was greater than the increase in our total current assets. The increase in our total current assets was primarily due to: (i) an increase of RMB19,002.0 million in cash held on behalf of brokerage clients, mainly as a result of favorable market conditions; and (ii) an increase of RMB3,322.0 million in financial assets at fair value through profit or loss, mainly as a result of an increase in the scale of our investment in fixed-income securities. Such increases were partially offset by a decrease of RMB6,990.4 million in financial assets held under resale agreements, mainly as a result of a decrease in the balance of our securities-backed lending loans. The increase in our total current liabilities was primarily due to: (i) an increase of RMB21,930.9 million in accounts payable to brokerage clients, mainly as a result of favorable market conditions; (ii) an increase of RMB12,555.1 million in long-term bonds due within one year, mainly as a result of an increase in the long-term bonds due within one year; and (iii) an increase of RMB7,105.3 million in other payables and accruals, mainly as a result of changes in the asset management schemes invested by our consolidated structured entities. Such increases were partially offset by: (i) a decrease of RMB5,947.1 million in short-term debt instruments issued, mainly as a result of our decreased scale of short-term corporate bonds and structured notes; and (ii) a decrease of RMB2,899.6 million in placements from other financial institutions, mainly as a result of our decreased scales of interbank lending and placements from China Securities Finance.

Our net current assets increased by 18.0% to RMB92,473.7 million as of December 31, 2018 from RMB78,348.0 million as of December 31, 2017 because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our total current assets was primarily due to: (i) an increase of RMB40,525.4 million in financial assets at fair value through profit or loss, mainly as a result of an increase in the scale of our investment in fixed-income securities; and (ii) an increase of RMB11,516.4 million in financial assets held under resale agreements, mainly as a result of an increase in the our financial assets of bonds held under resale agreements. Such increases were partially offset by a decrease of RMB12,631.7 million in margin accounts receivable. The increase in our total current liabilities was primarily due to: (i) an increase of RMB18,462.4 million in financial assets sold under repurchase agreements, mainly as a result of our increased bond repurchase transactions; (ii) an increase of RMB5,809.0 million in long-term bonds due within one year, mainly as a result of an increase in the long-term bonds due within one year; and (iii) an increase of RMB3,718.9 million in placements from other financial institutions, mainly as a result of an increase in our interbank lending.

Our net current assets decreased by 6.8% to RMB78,348.0 million as of December 31, 2017 from RMB84,098.8 million as of December 31, 2016 because the increase in our total current liabilities was greater than the increase in our total current assets. The increase in our total current assets was

primarily due to: (i) an increase of RMB19,213.4 million in financial assets held under resale agreements, mainly as a result of an increase in the balance of our securities-backed lending loans; (ii) an increase of RMB14,426.2 million in financial assets at fair value through profit or loss, mainly as a result of an increase in the scale of our investments in fixed-income securities; and (iii) an increase of RMB7,586.5 million in available-for-sale financial assets, mainly as a result of an increase in the scale of our investments in fixed-income securities. Such increases were partially offset by a decrease of RMB24,589.9 million in cash held on behalf of brokerage clients resulting from unfavorable market conditions and the resultant low trading volumes. The increase in our current liabilities was mainly attributable to: (i) an increase of RMB22,832.8 million in financial assets sold under repurchase agreements, mainly as a result of our increased bond repurchase transactions; (ii) an increase of RMB12,033.7 million in short-term debt instruments issued, mainly as a result of our increased scale of short-term corporate bonds and structured notes; and (iii) an increase of RMB10,567.9 million in long-term bonds due within one year. Such increases were partially offset by a decrease of RMB26,075.6 million in accounts payable to brokerage clients due to low trading volumes.

Adjusted current assets and liabilities (Non-IFRS measures)

Customer deposits fluctuate based on our customers' trading activities, financial market conditions and other factors extrinsic to our business; consequently, although we earn some interest income from these deposits, customer deposits tend not to be a meaningful indicator of our financial condition or results of operations. We have therefore adjusted our assets and liabilities in the following table to exclude the effect of customer deposits:

	As of December 31,			As of February 28,
	2016	2017	2018	2019
				(unaudited)
	(RMB in millions, except for the ratio)			
Adjusted current assets[1]	152,728	196,620	236,419	236,750
Adjusted current liabilities[2]	68,629	118,272	143,945	153,966
Adjusted net current assets[3]	84,099	78,348	92,474	82,784
Adjusted current ratio[4]	2.23 times	1.66 times	1.64 times	1.54 times

(1) Adjusted current assets equal to total current assets less accounts payable to brokerage clients, the latter representing the amount of deposits held by us on behalf of our brokerage clients.
(2) Adjusted current liabilities equal to total current liabilities less accounts payable to brokerage clients.
(3) Adjusted net current assets equal to adjusted current assets less adjusted current liabilities.
(4) Adjusted current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.

We believe adjusted net current assets is a more meaningful indicator of our financial performance because it does not include the amount of deposits from brokerage clients, which, as discussed above, is largely unrelated to our financial performance but can cause large changes in our balance sheet. Prospective investors should be aware that non-IFRS measures presented in this document may not be comparable with other similarly titled measures reported by other companies due to different calculation methods or assumptions.

Non-current assets and liabilities

The following table sets forth the components of non-current assets and liabilities as of the dates indicated:

	As of December 31,		
	2016	2017	2018
Non-current assets			
Property and equipment	1,416.5	1,396.1	1,373.9
Investment properties	88.5	85.1	66.7
Other intangible assets(1)	117.2	142.0	148.7
Interest in associates and joint ventures	973.6	1,870.7	2,399.1
Financial assets measured at amortized cost	–	–	5,710.8
Financial assets at fair value through other comprehensive income	–	–	9,116.0
Available-for-sale financial assets	19,058.7	17,865.0	–
Financial assets held under resale agreements	3,374.6	10,482.6	20,992.8
Financial assets at fair value through profit or loss	–	–	3,419.7
Refundable deposits	5,760.9	5,459.3	5,830.6
Deferred tax assets	1,580.3	1,310.5	1,800.7
Other non-current assets	686.8	1,083.6	176.7
Total non-current assets	**33,057.1**	**39,694.9**	**51,035.7**
Non-current liabilities			
Loans and borrowings	300.0	651.0	650.8
Long-term bonds	56,375.5	49,144.7	65,567.8
Non-current employee benefits payable	2,067.3	1,334.4	1,287.6
Deferred tax liabilities	754.8	451.2	242.1
Financial assets sold under repurchase agreements	1,201.0	8,250.0	4,300.0
Financial liabilities at fair value through profit or loss	–	–	44.0
Other non-current liabilities	2,384.1	1,205.8	221.2
Total non-current liabilities	**63,082.7**	**61,037.1**	**72,313.5**

(1) Our intangible assets primarily consist of software, land use rights and trading seat rights. Unlike software and land use rights, based on an analysis of relevant rules on trading seats rights issued by the Shanghai Stock Exchange and the Shenzhen Stock Exchange and other relevant factors, there is no foreseeable limit to the period over which the trading seat is expected to generate net cash inflows for us, and therefore, the trading seat is regarded by us as having an indefinite useful life and is tested annually for impairment. The cash generating unit of these trading seats mainly relates to securities brokerage business. The respective recoverable amounts of the trading seats using a value in use calculation adopted by our management exceed the carrying amounts. Accordingly, our management determined it unnecessary to provide for impairment of the trading seats rights. The key assumptions of the management when calculating the recoverable amounts of the trading seats include pre-tax discount rate of 10.0% and budgeted growth rate of earnings before interest, taxes, depreciation and amortization of negative 3.4% estimated based on the historical market performance and the management's expectations for the market development. Based on such assumptions, as of December 31, 2016, 2017 and 2018, the recoverable amounts of the trading seats exceeded their respective carrying amounts by RMB4.4 billion, RMB3.9 billion and RMB3.8 billion, respectively, as estimated by the management. The management believes that if there were any reasonably possible changes in the key assumptions, the recoverable amounts of such cash generating units would not be expected to be lower than their respective carrying amounts.

Our non-current assets consist primarily of financial assets held under resale agreements with a term of one year or more, available-for-sale financial assets with a term of one year or more (before the implementation of IFRS 9), financial assets measured at fair value through other comprehensive income with a term of one year or more (after the implementation of IFRS 9), financial assets measured at amortized cost with a term of one year or more (after the implementation of IFRS 9), refundable deposits, interest in associates and joint ventures and property and equipment. Our non-current liabilities consist primarily of long-term bonds and financial assets sold under repurchase agreements.

Our non-current assets increased by 28.6% to RMB51,035.7 million as of December 31, 2018 from RMB39,694.9 million as of December 31, 2017, primarily due to an increase of RMB10,510.2 million in financial assets held under resale agreements, mainly as a result of an increase in the balance of our stock-backed lending loans.

Our non-current liabilities increased by 18.5% to RMB72,313.5 million as of December 31, 2018 from RMB61,037.1 million as of December 31, 2017, primarily due to an increase of RMB16,423.1 million in the scale of long-term bonds, partially offset by a decrease of RMB3,950.0 million in financial assets sold under repurchase agreements.

Our non-current assets increased by 20.1% to RMB39,694.9 million as of December 31, 2017 from RMB33,057.1 million as of December 31, 2016, primarily due to: (i) an increase of RMB7,108.0 million in financial assets held under resale agreements, mainly as a result of an increase in the balance of our stock-backed lending loans; and (ii) an increase of RMB897.1 million in interest in associates and joint ventures, mainly due to our increased investments in an associate. These increases were partially offset by a decrease of RMB1,193.7 million in available-for-sale financial assets.

Our non-current liabilities decreased by 3.2% to RMB61,037.1 million as of December 31, 2017 from RMB63,082.7 million as of December 31, 2016, primarily due to: (i) a decrease of RMB7,230.8 million in long-term bonds, mainly due to the reclassification of long-term bonds to long-term bonds due within one year; and (ii) a decrease of RMB1,178.3 million in other non-current liabilities resulting from a decrease in the scale of our asset management within the scope of consolidation, which were partially offset by an increase of RMB7,049.0 million in financial assets sold under repurchase agreements.

INDEBTEDNESS

As of February 28, 2019 (representing the latest date for determining our indebtedness), our total indebtedness include RMB90,198.1 million of long-term bonds, RMB7,273.0 million of short-term debt instruments issued, RMB8,719.3 million of placements from other financial institutions, RMB1,549.3 million of loans and borrowings and RMB840.2 million of lease liabilities.

Our Company can issue corporate bonds and obtain funds through bank loans; and Shenwan Hongyuan Securities can obtain financing through issuing corporate bonds, subordinated bonds, structured notes and short-term debt instruments, and through placements from the interbank market and China Securities Finance.

Placements from Other Financial Institutions

Shenwan Hongyuan Securities has access to borrowings through the interbank market and China Securities Finance. As of December 31, 2018 and February 28, 2019, the balance of placements from other financial institutions was RMB11,618.9 million and RMB8,719.3 million, respectively.

Interbank lending

Shenwan Hongyuan Securities is a member of the interbank lending market in China and able to obtain interbank lending with a term within seven days to quickly replenish its short-term liquidity. As of December 31, 2018 and February 28, 2019, the balance of its interbank lending was

RMB7,818.9 million and RMB6,419.3 million, respectively. We generally pay an interest rate on interbank lending based on the Shanghai Interbank Offered Rate which generally ranged between 2.86% and 5.70%.

Placements from China Securities Finance

Shenwan Hongyuan Securities also obtains financing from China Securities Finance. As of December 31, 2018 and February 28, 2019, the balance of its placements from China Securities Finance was RMB3,800.0 million and RMB2,300.0 million, respectively, with maturities within 182 days. Shenwan Hongyuan Securities generally pays an interest rate on the funds placed from China Securities Finance ranging from 4.30% to 5.10% per year.

Short-term Debt Instruments Issued

Shenwan Hongyuan Securities manages its short-term liquidity by issuing corporate bonds and structured notes with a term not exceeding one year. The outstanding balance of its short-term debt instruments issued was RMB13,220.1 million and RMB7,273.0 million, respectively, as of December 31, 2018 and February 28, 2019.

Short-term corporate bonds

Shenwan Hongyuan Securities uses the net proceeds from its issuances of short-term corporate bonds to primarily finance its liquidity. As of February 28, 2019, we had no outstanding short-term corporate bonds. For details of our long-term corporate bonds, see "—Long-term Bonds—Corporate bonds."

Short-term structured notes

Shenwan Hongyuan Securities issues both short-term structured notes to increase its working capital. As of February 28, 2019, the outstanding balance of its short-term structured notes was RMB7,273.0 million, with a coupon rate of 1.64% to 6.96%. For details of our long-term structured notes, see "—Long-term Bonds—Structured notes."

Long-term Bonds

We finance our long-term business expansion by issuing corporate bonds, subordinated bonds and structured notes with a term exceeding one year. As of December 31, 2018 and February 28, 2019, the aggregate balance of our long-term bonds (including long-term bonds due within one year) was RMB87,899.2 million and RMB90,198.1 million, respectively.

Corporate bonds

Subject to the approval from the CSRC, our Company and Shenwan Hongyuan Securities may issue corporate bonds to investors in China. We used the net proceeds from the issuance of corporate bonds primarily to replenish our working capital. As of February 28, 2019, the outstanding par value of our issued corporate bonds was RMB42,200.0 million.

The table below sets forth a summary of our corporate bonds outstanding as of February 28, 2019:

Issuer	Par value	Issue date	Term	Coupon rate
	(RMB in millions)			
Shenwan Hongyuan Securities	6,000.0	July 2013	72 months	5.20%
Our Company	5,000.0	April 2016	60 months	3.45%
Our Company	2,000.0	September 2016	36 months	2.90%
Our Company	5,500.0	September 2016	60 months	3.20%
Shenwan Hongyuan Securities	7,500.0	February 2017	60 months	4.40%
Shenwan Hongyuan Securities	500.0	February 2017	84 months	4.50%
Our Company	500.0	July 2018	60 months	4.40%
Our Company	6,500.0	July 2018	60 months	4.80%
Shenwan Hongyuan Securities	2,000.0	November 2018	24 months	4.10%
Shenwan Hongyuan Securities	3,000.0	November 2018	36 months	4.20%
Shenwan Hongyuan Securities	1,500.0	December 2018	60 months	4.08%
Shenwan Hongyuan Securities	2,200.0	January 2019	36 months	3.55%

In March 2019, Shenwan Hongyuan Securities issued one tranche of corporate bonds due 2022 in China, with a principal amount of RMB6.2 billion and a fixed interest rate of 3.68%.

In January 2019, our shareholders approved the issue of corporate bonds by our Company in China, with a principal amount not exceeding RMB10.0 billion. The proposed use of proceeds of such corporate bonds is to replenish our working capital or refinance existing indebtedness. Accordingly, in March 2019, our Company issued one tranche of corporate bonds due 2022, with a principal amount of RMB1.0 billion and a fixed interest rate of 4.18%. On or around April 12, 2019, our Company is expected to complete the issue of another tranche of corporate bonds with a principal amount of up to RMB3.2 billion.

Subordinated bonds

Shenwan Hongyuan Securities may also issue debt securities in China that are subordinated to its other senior indebtedness, such as corporate bonds and bank loans, and only rank before its equity securities in case of liquidation. Issuing subordinated bonds can help replenish its Net Capital. As of February 28, 2019, the outstanding par value of its issued subordinated bonds was RMB35,000.0 million.

The table below sets forth a summary of the subordinated bonds issued by Shenwan Hongyuan Securities outstanding as of February 28, 2019:

Par value	Issue date	Term	Coupon rate
(RMB in millions)			
10,000.0	March 2016	60 months	3.62%
5,000.0	October 2016	36 months	3.28%
400.0	November 2017	24 months	5.20%
4,300.0	November 2017	36 months	5.30%
1,400.0	April 2018	24 months	5.25%
4,600.0	April 2018	60 months	5.35%
4,200.0	May 2018	24 months	5.38%
5,100.0	September 2018	24 months	4.69%

Structured Notes

Shenwan Hongyuan Securities issues marketable securities either with the payment of return linked to the performance of specific underlying assets or with a fixed return. As of December 31, 2018, the outstanding balance of the structured notes issued by Shenwan Hongyuan Securities was RMB12,900.4 million, with a fixed interest rate between 3.00% and 5.80% per annum; and the outstanding balance was RMB12,999.0 million as of February 28, 2019.

Loans and Borrowings

As of December 31, 2018 and February 28, 2019, the aggregate balance of our loans and borrowings was RMB1,368.4 million and RMB1,549.3 million, respectively.

As of February 28, 2019, our current and non-current loans and borrowings were RMB898.5 million and RMB650.8 million, respectively, which primarily consisted of unsecured loans that we obtained from trust companies and banks loans to mainly develop our principal investment and debt capital market businesses.

Lease Liabilities

Effective January 1, 2019, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognized for all leases on the balance sheet, subject to certain exceptions. As of February 28, 2019, we recorded lease liabilities of RMB840.2 million, mainly consisting of leases of certain office properties from third parties.

Our Directors have confirmed that there has not been any material increase in our indebtedness since February 28, 2019 to the date of this document. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breaches of financial covenants during the Track Record Period and up to the Latest Practicable Date.

Apart from the foregoing, we did not have, as of February 28, 2019, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise expenditures for construction in progress, property plant and equipment, long-term deferred expenses and other intangible assets, which were mainly for system development and purchases for the infrastructure for our operations and funded by our own cash. The following table sets forth our capital expenditures for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Purchases of property and equipment, other intangible assets and other non-current assets	245.4	294.9	260.7

We estimated that our capital expenditures for 2019 will be approximately RMB509 million, which we will use primarily for financial technology, system consolidation, renovation of branches and upgrades of infrastructure equipment, among other things. We expect to fund these capital expenditures with our available cash resources.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Operating Lease Commitments

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

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Within one year (inclusive)	283.2	289.2	408.8
One to two years (inclusive)	203.5	221.7	251.4
Two to three years (inclusive)	153.1	144.3	120.4
After three years	110.5	149.3	170.4
Total	**750.3**	**804.5**	**951.0**

CONTINGENT LIABILITIES

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

Our Directors confirm that there has been no material change in our contingent liabilities since December 31, 2018 to the date of this document.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 56 to the Accountants' Report in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any outstanding off-balance sheet arrangements.

NET CAPITAL AND OTHER REGULATORY REQUIREMENTS

According to the Measures for the Risk Control Indicators of Securities Firms, our securities subsidiaries have established a dynamic risk indicator monitoring mechanism to comply with statutory Net Capital requirements and other regulatory standards to maintain capital adequacy. In addition, we also need to maintain a minimum amount of Net Capital necessary to conduct our securities brokerage, investment banking, proprietary trading and asset management businesses. As of December 31, 2016, 2017 and 2018, we were in compliance with all capital adequacy and risk control indicator requirements.

The following table sets forth our Net Capital and key regulatory risk control indicators that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

Shenwan Hongyuan Securities

	As of December 31,			Warning level[1]	Minimum/ Maximum level
	2016	2017	2018		
Net Capital[2] (RMB in billions)	50.9	51.1	58.4	N/A	≥ 0.2
Risk coverage ratio[3]	245.7%	215.1%	237.8%	≥120%	≥100%
Capital leverage ratio[4]	24.9%	19.9%	18.9%	≥ 9.6%	≥ 8%
Liquidity coverage ratio[5]	215.1%	205.4%	333.6%	≥120%	≥100%
Net stable funding ratio[6]	142.9%	128.0%	130.2%	≥120%	≥100%
Net Capital/Net assets	109.6%	102.5%	93.7%	≥ 24%	≥ 20%
Net Capital/Total liabilities	50.1%	34.4%	31.5%	≥ 9.6%	≥ 8%
Net asset/Total liabilities[7]	45.7%	33.5%	33.7%	≥ 12%	≥ 10%
Value of proprietary equity securities and derivatives held / Net Capital	30.3%	28.2%	20.3%	≤ 80%	≤100%
Value of proprietary fixed-income securities and derivatives held / Net Capital	86.4%	134.1%	172.1%	≤400%	≤500%

Shenwan Hongyuan Financing Services

	As of December 31,			Warning level[1]	Minimum/ Maximum level
	2016	2017	2018		
Net Capital[2] (RMB in billions)	1.4	1.3	1.3	N/A	≥0.05
Risk coverage ratio[3]	575.6%	572.1%	777.7%	≥120%	≥ 100%
Capital leverage ratio[4]	50.0%	56.8%	83.6%	≥ 9.6%	≥ 8%
Liquidity coverage ratio[5]	267.7%	308.6%	729.3%	≥120%	≥ 100%
Net stable funding ratio[6]	158.7%	186.0%	489.7%	≥120%	≥ 100%
Net Capital/Net assets	98.9%	94.5%	95.8%	≥ 24%	≥ 20%
Net Capital/Total liabilities	207.0%	257.0%	658.7%	≥ 9.6%	≥ 8%
Net asset/Total liabilities[7]	209.3%	272.0%	687.6%	≥ 12%	≥ 10%
Value of proprietary equity securities and derivatives held / Net Capital	0.2%	–	–	≤ 80%	≤ 100%
Value of proprietary fixed-income securities and derivatives held / Net Capital	64.8%	52.8%	73.5%	≤400%	≤ 500%

Shenwan Hongyuan Securities (Western)

	As of December 31,			Warning level[1]	Minimum/ Maximum level
	2016	2017	2018		
Net Capital[2] (RMB in billions)	3.3	4.0	6.8	N/A	≥ 0.1
Risk coverage ratio[3]	544.0%	691.1%	1,550.1%	≥120%	≥100%
Capital leverage ratio[4]	51.4%	56.9%	87.5%	≥ 9.6%	≥ 8%
Liquidity coverage ratio[5]	184.4%	282.7%	1,633.5%	≥120%	≥100%
Net stable funding ratio[6]	206.9%	198.6%	346.1%	≥120%	≥100%
Net Capital/Net assets	91.0%	98.4%	99.1%	≥ 24%	≥ 20%
Net Capital/Total liabilities	118.1%	135.1%	750.0%	≥ 9.6%	≥ 8%
Net asset/Total liabilities[7]	129.9%	137.2%	757.1%	≥ 12%	≥ 10%
Value of proprietary equity securities and derivatives held / Net Capital	0.6%	0.0%	0.0%	≤ 80%	≤100%
Value of proprietary fixed-income securities and derivatives held / Net Capital	–	5.0%	26.6%	≤400%	≤500%

(1) Warning ratios are set by the CSRC as follows, according to the Measures for the Risk Control Indexes: If the risk control indicator is required to stay above a certain level, then the warning ratio is 120% of the stipulated minimum requirement, and if the risk control indicator is required to stay below a certain level, then the warning ratio is 80% of the stipulated maximum requirement.

(2) Net capital refers to the sum of a securities firm's core Net Capital and ancillary Net Capital. Core Net Capital is measured by subtracting from net assets the risk adjustments required to be made to a securities firm's assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by the CSRC. Ancillary Net Capital is measured by long-term subordinated debt multiplied by the stipulated percentages, and further adding or subtracting any other adjustments determined or authorized by the CSRC.

(3) Risk coverage ratio refers to Net Capital divided by the sum of various risk capital provisions (which refers to capital required to cover unexpected losses due to market risk, credit risk, operational risk and specific risk, among other things, in the course of carrying out various businesses of securities firms as stipulated in the Provisions on the Calculation Basis for Risk Control Indicators of Securities Firms).

(4) Capital leverage ratio = core Net Capital/total balance-sheet and off-balance-sheet assets × 100%. No adjustment in respect of risk of contingent liabilities, such as guarantee, was made for the core Net Capital.

(5) Liquidity coverage ratio = quality liquid assets / net cash outflow in the subsequent 30 days × 100%.

(6) Net stable funding ratio = available stable funding / necessary stable funding × 100%.

(7) Total liabilities do not include accounts payable to brokerage clients.

We strictly comply with the requirements of the Measures for the Risk Control Indicators of Securities Firms and have set up an independent risk management system to dynamically monitor risk control indicators with a focus on Net Capital and liquidity. Meanwhile, we have established a Net Capital replenishment mechanism. When our risk control indicators such as Net Capital reach the warning levels, we would replenish capital by reducing the variety and scale of the proprietary investments with relatively high risks, adjusting business operational plans, issuing subordinated bonds and raising capital, among other things. In addition, we have established a stress test mechanism for risk control indicators. We carry out annual comprehensive stress tests in light of changes in the market environment and our business development. In events of cash dividend distribution, equity investment and development of various material businesses, among other things, we also conduct stress tests to evaluate our risk tolerance abilities comprehensively.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT RISKS

We have designed a risk management and control system to measure, monitor and manage risks arising in the ordinary course of business. See "Risk Management" and note 58 of the Accountants' Report in Appendix I to this document for an overview of our risk management processes.

The risks faced by us in our daily operation and management mainly include market risk, credit risk and liquidity risk. We aim to strike an appropriate balance between the risks and benefits of our

financial instruments and to mitigate the adverse effects that the risks of financial instruments have on our financial performance. Based on such objectives, our risk management policies are established to identify and assess the risks faced by us, to set appropriate risk limits and controls, and to monitor risks and compliance with limits. Risk management policies and internal control systems are reviewed regularly to reflect changes in market conditions and our activities.

The following discussion of our main risks and the estimated amounts of our risk exposure generated by our risk measurement models are forward-looking statements. These analyses and the results of our risk measurement models are not, however, predictions of future events, and the actual results may be significantly different from the analyses and results of our risk measurement models due to events in the global economy or the markets where we operate, as well as other factors described below.

Credit Risk

Credit risk refers to the risk that we may face when our financiers, counterparties or bond issuers fail to perform the agreed financial obligations. Our credit risk exposures mainly exist in our personal finance, proprietary trading, and principal investment businesses.

We have mainly adopted the following measures to detect, report and manage credit risk:

- established an internal rating system for credit risk, and conducted concentration risk management of the clients;
- optimized risk assessment and analysis of clients and collateral, and reinforced continuous supervision. We have also been improving credit risk management system, and set up company-level negative lists of counterparties so as to collect and manage the list of clients with bad credit, and unified the management of negative information of clients;
- set up strict entry criteria such as bond and issuer ratings for the proprietary trading business, and carried out pre-transaction review, post-transaction monitoring, and follow up on trading behaviors, credit ratings and types of securities, as well as scale and concentration of bonds;
- enhanced measures and policies of derivatives tradings, set up rating and entry criteria for its counterparties, and improved the risk limit indicators system and pre-transaction review standard; and
- tightened the review and management of certain businesses, such as stock-backed lending and principal investment business, on the assessment of client, concentration control, and scale of the businesses, and closely monitor project status on a continual basis.

Liquidity Risk

Liquidity risk is the risk that we may face if we fail to acquire sufficient funds in time with reasonable cost to repay our debts due, perform other payment obligations and satisfy capital requirements in normal business operations.

In managing our liquidity risks, we consider our short, medium and long-term funding needs and liquidity management requirements, and reinforce the management of both the total amount and the structure of high-quality liquid assets through continuously improving the management system of

our liquidity reserve, so as to maintain a sufficient liquidity reserve. We maintain adequate cash and cash equivalents and continuously monitor and compare cash flow forecast and actual cash flows. We also adopt a risk indicator analysis method to manage our overall liquidity risk. Through the analysis of key risk indicators, such as liquidity coverage ratio, net stable funding ratio, liquidity gap, and asset and liability concentration, we assess and measure our overall liquidity risk status.

For liquidity risks, we have primarily adopted the following measures:

- formulated a comprehensive capital plan to maintain a sufficient liquidity reserve;
- expanded the scope of cooperation of financial institutions, improved debt financing management capabilities and diversified liquidity management tools;
- enhanced the dynamic monitoring of liquidity risk, maintained the tracking and assessment of information such as liquidity monitoring indicators, cash flow gap, liquidity reserve and our short-term financing capabilities;
- carried out stress testing of liquidity risk, improved the ability to measure liquidity shock and put forward effective measures; and
- improved the capability of reporting and dealing with liquidity risk contingencies through conducting emergency drills for liquidity risk to enhance the ability to respond to liquidity crisis.

Market Risk

Market risk refers to the risk resulting from the adverse effects on our revenue or the value of financial instruments held by us due to market price changes of the equity securities, fixed-income securities and various derivative financial instruments held by us. We also face foreign exchange rate risks in currencies such as the Renminbi, US dollar and HK dollar. Market risk management aims to control the market risk within an acceptable range so as to maximize risk-adjusted returns. We conduct dynamic monitoring and grade warnings of risk indicators to ensure relevant countermeasures can be undertaken in a timely manner. We also conduct stress tests regularly to measure changes of various risk control indicators and operating indicators under different stress situations.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will affect our operation performance, financial position and cash flows. Our interest-bearing assets mainly include cash and bank balances, clearing settlement funds, margin accounts receivable and financial assets held under resale agreements; interest-bearing liabilities mainly include loans and borrowings, long-term bonds, short-term debt instruments issued, placements from other financial institutions, financial assets sold under repurchase agreements and accounts payable to brokerage clients.

For financial instruments held on the balance sheet date that expose us to fair value interest rate risk, we employ interest repricing gap analysis and sensitivity analysis as the primary instrument for monitoring interest rate risk. Sensitivity analysis measures the effect of any reasonable and possible changes in the interest rate on the profits after tax and shareholders' equity with all other variables held constant.

Sensitivity analysis

For those financial instruments held by us which expose us to fair value interest rate risk at the end of the relevant periods, we adopt sensitivity analysis to measure the potential effect of changes in interest rates on our profit after tax and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

Sensitivity of profit after tax

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Change in interest rates			
Up 25 basis points	(8.5)	(109.3)	(255.0)
Down 25 basis points	9.6	113.3	262.8

Sensitivity of equity

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Change in interest rates			
Up 25 basis points	(34.1)	(190.5)	(358.1)
Down 25 basis points	35.7	196.3	368.7

The sensitivity analysis above indicates the instantaneous change in our profit after tax and equity that would arise assuming that the change in interest rates had occurred at the end of the relevant periods and had been applied to re-measure those financial instruments held by us which expose us to fair value interest rate risk at the end of the relevant periods.

In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by us, the impact on our profit after tax and equity is estimated as an annualized impact on interest expense or income of such a change in interest rates.

Foreign currency risk

Foreign currency risk is the risk arising from our foreign exchange business, which is attributable to the fluctuation of foreign exchange rates. In addition, in 2016, 2017 and 2018, our exchange differences on translation of financial statements in foreign currencies were RMB140.6 million, negative RMB146.3 million and RMB115.3 million, respectively, which were recognized in our other comprehensive income. Such currency translation differences arise from the translation of the financial statements of overseas operations into our presentation currency, which is Renminbi. We adopt sensitivity analysis to measure and monitor currency risk.

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by us, a 10% strengthening of the Renminbi against the US dollar, the Hong Kong dollar and other currencies at the end of the Relevant Periods, under the assumption of the foreign exchange rate changes within the period from the end of the Relevant Periods to next whole year, would have increased/(decreased) our equity and profit after tax by the amount shown below, which effect is in Renminbi and translated using the spot rate at the end of the Relevant Periods:

Sensitivity of equity and profit after tax

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Currency			
US dollar	(35.5)	(28.9)	(19.5)
Hong Kong dollar	(146.1)	(171.6)	(256.4)
Other currencies	(2.2)	3.0	(5.9)

A 10% weakening of the Renminbi against the US dollar, the Hong Kong dollar and other currencies at the end of the Relevant Periods would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to foreign currency risk at the end of the Relevant Periods. The analysis excludes translation differences arising from translation of foreign currency financial statements.

Other price risk

Other price risks refer to the risk that the fair value or future cash flows of any equity securities and funds held by us will be affected by changes in market price factors (other than interest rates and foreign exchange rates). We mainly invest in funds and stocks listed on stock exchanges, and the maximum market price risk is determined by fair value of financial instruments held by us.

Assuming that the market price of the aforementioned financial instruments increases or decreases by 10%, with all other variables held constant, the effect of these balance sheet assets on our profit after tax and shareholders' equity is listed as follows:

Sensitivity of profit after tax

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Change in the market price of equity instruments			
Increase by 10%	690.4	712.7	1,134.6
Decrease by 10%	(690.4)	(712.7)	(1,134.6)

Sensitivity of equity

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Change in the market price of equity instruments			
Increase by 10%	1,145.7	1,088.0	1,396.1
Decrease by 10%	(1,145.7)	(1,088.0)	(1,396.1)

DIVIDEND POLICY

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

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

- recovery of accumulated losses, if any;
- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve will be required; and
- allocations, if any, to a discretionary common reserve fund that are approved by our shareholders in a Shareholders' meeting.

The Articles of Association of our Company stipulate that our Company may distribute dividends by means of cash, stock or a combination of cash and stock. In the case of meeting the capital needs of our normal operations, if there is no major investment or major cash expenditures, we shall give priority to dividend distribution policy of cash dividends. Our Company's accumulated profit distributed in cash in any three consecutive years shall not be less than 30% of the annual distributable profit realized in the three years.

After the completion of the **[REDACTED]**, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

For the fiscal years of 2016, 2017 and 2018, we declared cash dividends of RMB2,005.7 million, RMB1,126.8 million and RMB1,126.8 million, respectively, representing a dividend of RMB0.10, RMB0.05 and RMB0.05 per share, respectively. On March 21, 2019, our shareholders approved our plan to distribute a cash dividend of RMB1,126.8 million (tax included) to the holders of our A Shares. We expect to pay this dividend after the **[REDACTED]** but before May 21, 2019 with our available cash resources. Our remaining accumulated undistributed profits before the **[REDACTED]** would be shared among our existing and new shareholders.

DISTRIBUTABLE RESERVES

As of December 31, 2018, our Company had RMB2,492.9 million in retained profits, as determined under IFRS, available for distribution to our shareholders.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited **[REDACTED]** adjusted consolidated net tangible assets attributable to owners of our company which has been prepared for the purpose of illustrating the effect of the **[REDACTED]** as if it had taken place on December 31, 2018, based on our audited consolidated net assets attributable to the owners of our company as of December 31, 2018 as shown in Appendix I to this document, and adjusted as follows:

	Consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2018[1]	Estimated net [REDACTED] from the [REDACTED][2][3]	Unaudited [REDACTED] adjusted consolidated net tangible assets[6]	Unaudited [REDACTED] adjusted consolidated net tangible assets per share	
	(RMB Million)	(RMB Million)	(RMB Million)	(RMB)[4]	(HK$)[5]
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	69,251	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	69,251	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

(1) The consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2018 is based on our consolidated total equity attributable to shareholders as of December 31, 2018 of RMB 69,399 million less other intangible assets of RMB148 million, as shown in our financial information as set out in Appendix I of this document.

(2) The estimated net **[REDACTED]** from the **[REDACTED]** are based on the **[REDACTED]** of HK$**[REDACTED]** (being the minimum **[REDACTED]**) and HK$**[REDACTED]** (being the maximum **[REDACTED]**) per H share and the assumption that there are **[REDACTED]** newly issued H Shares in the **[REDACTED]**, after deduction of the underwriting fees and other related expenses payable by us (excluding the listing expenses which have been accounted for prior to December 31, 2018) assuming the **[REDACTED]** is not exercised.

(3) The estimated net **[REDACTED]** from the **[REDACTED]** are translated into Renminbi at the rate of RMB0.85428 to HK$1.00, the exchange rate set by the PBOC prevailing on April 4, 2019. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

(4) The unaudited **[REDACTED]** adjusted consolidated net tangible assets per share is arrived on the basis of 22,535,944,560 shares in issue as of December 31, 2018, **[REDACTED]** shares that will be issued under the **[REDACTED]**, assuming that the **[REDACTED]** has been completed on December 31, 2018, but does not take into account of any shares which may be issued upon the exercise of the **[REDACTED]**.

(5) The unaudited **[REDACTED]** adjusted consolidated net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.85428 to HK$1.00, the exchange rate set by the PBOC prevailing on April 4, 2019. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.

(6) The unaudited **[REDACTED]** adjusted consolidated net tangible assets does not take into account the financial results or other transactions of the Group subsequent to December 31, 2018.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

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

As a company listed on the Shenzhen Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual reports with respect to our A Shares under the listing rules of the Shenzhen Stock Exchange. These reports are prepared in conformity with PRC GAAP. Our quarterly financial information in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our **[REDACTED]** on the Hong Kong Stock Exchange. We will

publish annual and semi-annual financial information under IFRS for H Share disclosure purpose and annual, semi-annual and quarterly financial information under the PRC GAAP for A-Share disclosure purpose simultaneously.

In addition, we are also required by the CSRC to announce selected unconsolidated unaudited monthly operating revenue and net profit and month-end net assets of our securities subsidiaries, namely, Shenwan Hongyuan Securities, Shenwan Hongyuan Financing Services and Shenwan Hongyuan Securities (Western), prepared in conformity with the PRC GAAP, by way of an announcement published on the website of the Shenzhen Stock Exchange (www.szse.cn) on a monthly basis. Our monthly selected unconsolidated financial data in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our **[REDACTED]** on the Hong Kong Stock Exchange.

SELECTED UNCONSOLIDATED UNAUDITED MONTHLY RESULTS SUBSEQUENT TO THE TRACK RECORD PERIOD

On February 13, March 6 and April 8, 2019, we announced the monthly operating results of Shenwan Hongyuan Securities, Shenwan Hongyuan Securities Financing Services and Shenwan Hongyuan Securities (Western) for January, February and March 2019, respectively, on the website of the Shenzhen Stock Exchange (www.szse.cn):

	January 2019 / As of January 31, 2019	February 2019 / As of February 28, 2019	March 2019 / As of March 31, 2019
		(unaudited) (RMB in millions)	
Shenwan Hongyuan Securities			
Operating revenue	782.9	1,021.4	1,644.6
Net profit	329.7	454.2	697.7
Net assets	62,969.0	63,784.4	63,153.5
Shenwan Hongyuan Financing Services			
Operating revenue	65.8	26.3	62.5
Net profit	19.0	10.6	15.9
Net assets	1,459.2	1,469.8	1,438.0
Shenwan Hongyuan Securities (Western)			
Operating revenue	54.0	63.7	137.4
Net profit	19.3	27.3	71.3
Net assets	6,875.1	6,902.4	6,970.3

These selected unaudited unconsolidated financial data as of and for the month ended January 31, 2019 and February 28, 2019 were extracted from the unaudited interim unconsolidated financial statements of Shenwan Hongyuan Securities, Shenwan Hongyuan Securities Financing Services and Shenwan Hongyuan Securities (Western) as of and for the month ended January 31, 2019 and February 28, 2019, respectively, prepared under PRC GAAP. Our reporting accountants have performed a review on the unaudited interim unconsolidated financial statements of Shenwan Hongyuan Securities, Shenwan Hongyuan Securities Financing Services and Shenwan Hongyuan Securities (Western) as of and for the month ended January 31, 2019 and February 28, 2019, respectively, in accordance with Hong Kong Standards on Review Engagements 2410.

Our reporting accountants have performed certain agreed-upon procedures for the selected unaudited unconsolidated financial data of Shenwan Hongyuan Securities for the month ended March 31, 2019 based on the Hong Kong Standard on Related Services 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information. These agreed-upon procedures include (i) agreeing the unaudited unconsolidated operating revenue, net profit and net assets of Shenwan

Hongyuan Securities to the unconsolidated management accounts for the month ended March 31, 2019, (ii) agreeing each line item in the unconsolidated management accounts for the month ended March 31, 2019 to the general ledger, (iii) checking the mathematical accuracy of the unconsolidated management accounts for the month ended March 31, 2019, (iv) agreeing the operating revenue for the month ended March 31, 2019 shown on a schedule prepared by management setting out operating revenue by each category (including commission income from securities brokerage business, fee income from asset management business, commission income from investment banking business, interest income from margin financing and securities lending business, interest income from securities-backed lending business, investment gains and losses, unrealized fair value changes and other revenue items) to the unconsolidated management accounts, (v) agreeing the commission income from securities brokerage business, fee income from asset management business, commission income from investment banking business, interest income from margin financing and securities lending business, interest income from securities-backed lending business, investment gains and losses and unrealized fair value changes for the month ended March 31, 2019 listed on the operating revenue schedule obtained in procedure (iv) to the general ledger, and (vi) obtaining a schedule from management detailing the fee income from asset management business by each asset management scheme, agreeing the total amount of fee income from asset management business on the schedule to the general ledger, and agreeing the fee income from asset management business of the top ten asset management schemes on the schedule to the sub-ledger.

Our reporting accountants have performed certain agreed-upon procedures for the selected unaudited unconsolidated financial data of Shenwan Hongyuan Securities Financing Services and Shenwan Hongyuan Securities (Western) for the month ended March 31, 2019 based on the Hong Kong Standard on Related Services 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information. These agreed-upon procedures include (i) agreeing the unaudited unconsolidated operating revenue, net profit and net assets of Shenwan Hongyuan Securities Financing Services and Shenwan Hongyuan Securities (Western) to the respective unconsolidated management accounts for the month ended March 31, 2019; (ii) agreeing each line item in the unconsolidated management accounts for the month ended March 31, 2019 of Shenwan Hongyuan Securities Financing Services and Shenwan Hongyuan Securities (Western) to their respective general ledgers; (iii) checking the mathematical accuracy of the unconsolidated management accounts for the month ended March 31, 2019; (iv) for Shenwan Hongyuan Securities Financing Services, (a) obtaining a schedule from management detailing the operating revenue by each investment banking project; (b) agreeing the total amount of operating revenue on the schedule to the general ledger; (c) agreeing the operating revenue of the top ten investment banking projects on the schedule to the sub-ledger; and (v) for Shenwan Hongyuan Securities (Western), (a) agreeing the operating revenue for the month ended March 31, 2019 shown on a schedule prepared by management setting out operating revenue by each category (including commission income from securities brokerage business, interest income from margin financing and securities lending business, and interest income from securities-backed lending business) to the unconsolidated management accounts, (b) agreeing the commission income from securities brokerage business, interest income from margin financing and securities lending business, and interest income from securities-backed lending business for the month ended March 31, 2019 listed on the operating revenue schedule obtained in procedure (a) to the general ledger.

These monthly unconsolidated unaudited financial data are not indicative of our operating results for any period of a year or any full year.

Information contained in these announcements does not form part of this document. In particular, our consolidated quarterly financial results, which will be announced shortly after the date of this document, may not match those reflected in these unconsolidated unaudited monthly financial data. See "Risk Factors—Risks Relating to Our Business and Industry—We will release our 2019 first quarter consolidated financial results on the Shenzhen Stock Exchange no later than April 30, 2019, which is within several days after the **[REDACTED]**. If such quarterly consolidated financial results fail to meet the investor's expectation, the trading price of our H shares may be adversely affected." These unconsolidated unaudited monthly financial data do not contain all the information relating to our operating results in the first quarter of 2019 on a consolidated basis. We strongly caution you not to place any reliance on such information when considering whether to invest in our H Shares. In addition, our operating results in the first quarter of 2019 significantly benefited from the recovery of the PRC securities market. We cannot assure you such favorable market conditions will continue in the rest of 2019 or in the future generally. Our operating results will be adversely affected if the PRC securities market deteriorates. See "Risk Factors—Risks Relating to Our Business and Industry—General economic, geopolitical and market conditions could materially and adversely affect our business." We have not provided a reconciliation of our selected unaudited unconsolidated financial data to IFRS as there is no material difference in accounting treatment between PRC GAAP and IFRS.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2018 (being the date of our latest audited financial statements) and there has been no event since December 31, 2018 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this document.

[REDACTED]

[REDACTED] expenses represent professional fees, **[REDACTED]** and other fees incurred in connection with the **[REDACTED]**. We estimate that our **[REDACTED]** will be approximately RMB**[REDACTED]** million (assuming an **[REDACTED]** of HK$**[REDACTED]** per H Share (being the mid-point of the indicative **[REDACTED]** range) and no exercise of the **[REDACTED]**), of which approximately RMB**[REDACTED]** million is directly attributable to the issue of our H Shares to the public and will be capitalized and amortized, and approximately RMB**[REDACTED]** million is expected to be expensed in 2019. Our Directors do not expect such expenses to materially impact our results of operations in 2019.

FUTURE PLANS

See "Business—Business Strategies" in this document for a detailed description of our future plans.

USE OF [REDACTED]

Assuming an **[REDACTED]** of HK$**[REDACTED]** per Share (being the mid-point of the **[REDACTED]** range of between HK$**[REDACTED]** and HK$**[REDACTED]** per Share), we estimate that we will receive net proceeds of approximately HK$**[REDACTED]** million from the **[REDACTED]** after deducting the **[REDACTED]** and other estimated expenses paid and payable by us in connection with the **[REDACTED]** and assuming that the **[REDACTED]** is not exercised. In line with our strategies, we intend to use our **[REDACTED]** from the **[REDACTED]** for the purposes and in the amounts set forth below:

- approximately **[REDACTED]**%, or approximately HK$**[REDACTED]**, will be used to develop our securities businesses, including:

  (i) development of enterprise finance business to satisfy the financing needs of M&A clients, and to provide one-stop investment banking service solutions for enterprise clients;

  (ii) development of personal finance business to satisfy the increasing wealth management needs of clients, mainly including:

    (a) investment in mobile apps and other client service systems and upgrade of retail branches; and

    (b) providing multi-category, multi-market and multi-strategy financial products services to affluent and high-net-worth clients, and enhancing margin financing and securities lending and stock-backed lending services;

  (iii) development of institutional services and trading business to satisfy the comprehensive financial services needs of clients, mainly including:

    (a) strengthening capabilities of research, market making, product design and trading services;

    (b) optimizing and upgrading prime brokerage trading system; and

    (c) increasing investment in hedging and cross-border transactions;

  (iv) development of investment management business to continuously improve market brand, mainly including:

    (a) improving product development capabilities and investment capabilities; and

    (b) providing capital for our private equity funds to expand their business and increase competitiveness; and

  (v) investing in financial technology to develop data mining, improve client experience, strengthen risk control and enhance operation efficiency;

- approximately **[REDACTED]**, or approximately HK$**[REDACTED]**, will be used to make principal investments, including:
  - (i) focusing on debt investment to satisfy the financing needs of high-quality corporate clients and support the transformation and development of the economy; and
  - (ii) making direct equity investment, investing in third party private equity funds as limited partners and injecting capital into our investment subsidiaries;
- approximately **[REDACTED]**, or approximately HK$**[REDACTED]**, will be used to further develop our international business, including:
  - (i) providing capital for our overseas subsidiaries; and
  - (ii) forming cross-border funds, cooperating with overseas institutions to develop cross-border investment management products, and offering cross-border asset allocation.

In the event that the **[REDACTED]** is set at the maximum **[REDACTED]** or the minimum **[REDACTED]** of the indicative **[REDACTED]** range, the net **[REDACTED]** of the **[REDACTED]** will increase or decrease by approximately **[REDACTED]** million, respectively.

The additional net proceeds that we would receive if the **[REDACTED]** were exercised in full would be approximately (i) HK$**[REDACTED]** (assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the maximum **[REDACTED]**), (ii) HK$**[REDACTED]** (assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the mid-point of the **[REDACTED]** range) and (iii) HK$**[REDACTED]** (assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the minimum **[REDACTED]**).

To the extent that the net **[REDACTED]** from the **[REDACTED]** (including the net **[REDACTED]** from the exercise of the **[REDACTED]** Option) are either more or less than expected, we will adjust our allocation of the net **[REDACTED]** for the above purposes on a pro rata basis.

To the extent that the net **[REDACTED]** of the **[REDACTED]** are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

CORNERSTONE INVESTORS

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

In accordance with Rule 10.08 of the Listing Rule, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the **[REDACTED]** (whether or not such issue of Shares or securities will be completed within six months from the **[REDACTED]**) except for:

(a) the issue of Shares, the listing of which has been approved by the Stock Exchange, pursuant to a share option scheme under Chapter 17 of the Listing Rules;

(b) the exercise of conversion rights attaching to warrants issued as part of the initial public offering;

(c) any capitalization issue, capital reduction or consolidation or sub-division of Shares;

(d) the issue of Shares or securities pursuant to an agreement entered into before the commencement of dealing, the material terms of which have been disclosed in the listing document issued in connection with the initial public offering; or

(e) the **[REDACTED]** of H Shares pursuant to the **[REDACTED]** (including the **[REDACTED]**).

[REDACTED]

[REDACTED]

[REDACTED]

Joint Sponsors' Fee

An amount of **[REDACTED]** is payable by our Company as sponsor fees to each of the Joint Sponsors, totalling an amount of **[REDACTED]**.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Independence of the Joint Sponsors

Each of Goldman Sachs (Asia) L.L.C., ICBC International Capital Limited and ABCI Capital Limited satisfies the independent criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules. Shenwan Honyuan Capital (H.K.) Limited, is an indirect subsidiary of our Company, as such, it is not independent of our Company.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The following is the text of a report set out on pages I-1 to I-162, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SHENWAN HONGYUAN GROUP CO., LTD., [REDACTED], [REDACTED], [REDACTED] AND [REDACTED]

Introduction

We report on the historical financial information of Shenwan Hongyuan Group Co., Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-162, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2016, 2017 and 2018, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-162 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated 12 April 2019 (the "Document") in connection with the initial **[REDACTED]** of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(1) to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical

Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(1) to the Historical Financial Information in order to design 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. Our work also included 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 Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at 31 December 2016, 2017 and 2018 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2(1) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 51 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 April 2019

I HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

1 Consolidated statements of profit or loss

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	2016	2017	2018
Revenue				
Fee and commission income	4	11,554,090	8,748,489	6,419,311
Interest income	5	7,254,500	8,139,361	9,450,936
Net investment gains	6	2,672,354	3,749,604	5,644,565
Total revenue		21,480,944	20,637,454	21,514,812
Other income and gains	7	237,876	287,195	2,594,805
Total revenue and other income		21,718,820	20,924,649	24,109,617
Fee and commission expenses	8	1,650,935	1,370,230	946,634
Interest expenses	9	5,387,011	6,389,618	8,089,087
Staff costs	10	5,760,905	5,040,592	5,177,943
Depreciation and amortization expenses	11	286,027	295,526	297,909
Tax and surcharges		424,823	113,667	130,449
Other operating expenses	12	1,584,798	1,582,162	3,833,181
Provision for impairment losses	13	450,770	428,532	658,745
Total expenses		15,545,269	15,220,327	19,133,948
Operating profit		6,173,551	5,704,322	4,975,669
Share of profit of associates and joint ventures		211,761	223,171	211,596
Profit before income tax		6,385,312	5,927,493	5,187,265
Income tax expense	14	857,027	1,201,740	939,457
Profit for the year		5,528,285	4,725,753	4,247,808
Attributable to:				
Shareholders of the Company	17	5,409,058	4,599,683	4,160,189
Non-controlling interests		119,227	126,070	87,619
Total		5,528,285	4,725,753	4,247,808
Basic and diluted earnings per share *(in Renminbi per share)*	17	0.2697	0.2293	0.1863

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

2 Consolidated statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	2016	2017	2018
Profit for the year		5,528,285	4,725,753	4,247,808
Other comprehensive income for the year				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale financial assets				
—Net changes in fair value		(1,021,792)	886,605	–
—Reclassified to profit or loss		(516,976)	(391,999)	–
Financial assets at fair value through other comprehensive income				
—Net changes in fair value		–	–	539,374
—Reclassified to profit or loss		–	–	(234,834)
Share of other comprehensive income of associates		(10,735)	(4,901)	367
Exchange differences on translation of financial statements in foreign currencies		140,649	(146,299)	115,256
Income tax impact		385,264	(126,828)	(76,049)
Items that will not be reclassified to profit or loss:				
Equity investment at fair value through other comprehensive income				
—Net change in fair value		–	–	(1,440,720)
Income tax impact		–	–	360,180
Total other comprehensive income for the year, net of tax	51	(1,023,590)	216,578	(736,426)
Total comprehensive income for the year		4,504,695	4,942,331	3,511,382
Attributable to:				
Shareholders of the Company		4,299,032	4,906,278	3,360,539
Non-controlling interests		205,663	36,053	150,843
Total		4,504,695	4,942,331	3,511,382

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

3 Consolidated statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December 2016	2017	2018
Non-current assets				
Property and equipment	18	1,416,454	1,396,070	1,373,939
Investment properties	19	88,490	85,125	66,683
Other intangible assets	20	117,208	142,007	148,749
Interest in associates and joint ventures	22	973,572	1,870,655	2,399,055
Financial assets measured at amortized cost	23	–	–	5,710,839
Financial assets at fair value through other comprehensive income	24	–	–	9,115,967
Available-for-sale financial assets	25	19,058,660	17,865,020	–
Financial assets held under resale agreements	26	3,374,642	10,482,605	20,992,802
Financial assets at fair value through profit or loss	27	–	–	3,419,715
Refundable deposits	28	5,760,862	5,459,343	5,830,612
Deferred tax assets	29	1,580,342	1,310,456	1,800,675
Other non-current assets	30	686,881	1,083,627	176,706
Total non-current assets		33,057,111	39,694,908	51,035,742
Current assets				
Accounts receivable	31	1,466,675	1,525,437	1,237,590
Other receivables and prepayments	32	2,697,819	3,949,768	4,568,795
Margin accounts receivable	33	55,869,076	55,738,717	43,106,975
Financial assets measured at amortized cost	23	–	–	4,451,305
Financial assets at fair value through other comprehensive income	24	–	–	21,996,643
Available-for-sale financial assets	25	21,536,189	29,122,703	–
Financial assets held under resale agreements	26	14,357,299	33,570,721	45,087,089
Financial assets at fair value through profit or loss	27	34,936,283	49,362,519	89,887,881
Derivative financial assets	34	5,707	6,710	453,915
Clearing settlement funds	35	1,706,318	2,590,319	3,091,049
Cash held on behalf of brokerage clients	36	86,596,700	62,006,800	57,521,637
Cash and bank balances	37	23,260,086	22,374,696	25,286,414
Total current assets		242,432,152	260,248,390	296,689,293
Total assets		275,489,263	299,943,298	347,725,035

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

3 Consolidated statements of financial position (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December 2016	2017	2018
Current liabilities				
Loans and borrowings	39	255,193	2,106,344	717,585
Short-term debt instruments issued	40	3,211,596	15,245,333	13,220,147
Placements from other financial institutions	41	3,000,000	7,900,000	11,618,941
Financial liabilities at fair value through profit or loss	42	1,054,142	2,648,100	2,778,441
Accounts payable to brokerage clients	43	89,704,415	63,628,770	60,270,562
Employee benefits payable	44	2,921,841	1,781,750	1,450,173
Other payables and accruals	45	17,717,503	15,330,015	15,634,720
Current tax liabilities		917,406	295,956	778,704
Financial assets sold under repurchase agreements	46	33,576,733	56,409,492	74,871,880
Derivative financial liabilities	34	19,998	32,252	456,300
Contract liabilities	47	–	–	86,750
Long-term bonds due within one year	48	5,954,542	16,522,350	22,331,358
Total current liabilities		158,333,369	181,900,362	204,215,561
Net current assets		84,098,783	78,348,028	92,473,732
Total assets less current liabilities		117,155,894	118,042,936	143,509,474
Non-current liabilities				
Loans and borrowings	39	300,000	651,000	650,800
Long-term bonds	48	56,375,455	49,144,652	65,567,816
Non-current employee benefits payable	44	2,067,297	1,334,431	1,287,638
Deferred tax liabilities	29	754,834	451,187	242,110
Financial assets sold under repurchase agreements	46	1,201,000	8,250,000	4,300,000
Financial liabilities at fair value through profit or loss	42	–	–	44,017
Other non-current liabilities	49	2,384,067	1,205,888	221,164
Total non-current liabilities		63,082,653	61,037,158	72,313,545
Net assets		54,073,241	57,005,778	71,195,929
Equity				
Share capital	50	20,056,606	20,056,606	22,535,945
Reserves	51	15,595,042	16,967,187	26,721,215
Retained profits	51	16,653,164	18,173,404	20,142,165
Total equity attributable to shareholders of the Company		52,304,812	55,197,197	69,399,325
Non-controlling interests		1,768,429	1,808,581	1,796,604
Total equity		54,073,241	57,005,778	71,195,929

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

4 Statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December 2016	2017	2018
Non-current assets				
Property and equipment	18	233,423	267,540	254,601
Investment properties	19	358,888	293,203	280,633
Other intangible assets	20	150	658	870
Investments in subsidiaries	21	40,413,676	40,863,676	51,963,676
Interest in associates and joint ventures	22	–	698,456	721,638
Financial assets measured at amortized cost	23	–	–	2,757,699
Available-for-sale financial assets	25	2,404,715	4,005,530	–
Financial assets at fair value through profit or loss	27	–	–	1,691,714
Other non-current assets	30	1,667	6,722	6,119
Total non-current assets		43,412,519	46,135,785	57,676,950
Current assets				
Accounts receivable	31	6,970	–	–
Other receivables and prepayments	32	7,060,881	4,165,131	8,201,508
Financial assets measured at amortized cost	23	–	–	2,932,317
Available-for-sale financial assets	25	2,549,697	3,230,726	–
Financial assets at fair value through profit or loss	27	–	–	2,744,753
Cash and bank balances	37	1,408,426	97,211	159,170
Total current assets		11,025,974	7,493,068	14,037,748
Total assets		54,438,493	53,628,853	71,714,698
Current liabilities				
Loans and borrowing	39	–	1,400,000	1,000
Employee benefits payable	44	44,155	60,916	84,714
Other payables and accruals	45	2,358,662	207,014	363,569
Current tax liabilities		233,548	210,635	200,891
Long-term bonds due within one year	48	–	–	1,999,105
Total current liabilities		2,636,365	1,878,565	2,649,279
Net current assets		8,389,609	5,614,503	11,388,469
Total assets less current liabilities		51,802,128	51,750,288	69,065,419
Non-current liabilities				
Loans and borrowings	39	–	651,000	650,800
Long-term bonds	48	12,469,301	12,476,220	17,477,033
Non-current employee benefits payable	44	18,996	9,250	26,106
Deferred tax liabilities	29	667,888	450,891	234,990
Financial assets sold under repurchase agreements	46	–	500,000	500,000
Total non-current liabilities		13,156,185	14,087,361	18,888,929
Net assets		38,645,943	37,662,927	50,176,490
Equity				
Share capital	50	20,056,606	20,056,606	22,535,945
Reserves		15,371,515	15,491,265	25,147,601
Retained profits		3,217,822	2,115,056	2,492,944
Total equity		38,645,943	37,662,927	50,176,490

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company									
		Reserves								
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	(Note 50)	(Note 51)	(Note 51)	(Note 51)	(Note 51)	(Note 51)	(Note 51)			
As at 1 January 2016	14,856,745	4,444,946	2,540,058	7,693,212	505,422	(49,654)	20,243,562	50,234,291	1,631,487	51,865,778
Changes in equity for 2016										
Profit for the year	–	–	–	–	–	–	5,409,058	5,409,058	119,227	5,528,285
Other comprehensive income	–	–	–	–	(1,163,432)	53,406	–	(1,110,026)	86,436	(1,023,590)
Total comprehensive income	–	–	–	–	(1,163,432)	53,406	5,409,058	4,299,032	205,663	4,504,695
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	23,925	23,925
Appropriation to surplus reserve	–	–	365,523	–	–	–	(365,523)	–	–	–
Appropriation to general reserve	–	–	–	1,205,561	–	–	(1,205,561)	–	–	–
Dividends approved in respect of the previous year	5,199,861	–	–	–	–	–	(7,428,372)	(2,228,511)	(92,646)	(2,321,157)
As at 31 December 2016	20,056,606	4,444,946	2,905,581	8,898,773	(658,010)	3,752	16,653,164	52,304,812	1,768,429	54,073,241

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company									
		Reserves								
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	(Note 50)	(Note 51)	(Note 51)	(Note 51)	(Note 51)	(Note 51)	(Note 51)			
As at 1 January 2017	20,056,606	4,444,946	2,905,581	8,898,773	(658,010)	3,752	16,653,164	52,304,812	1,768,429	54,073,241
Changes in equity for 2017										
Profit for the year	–	–	–	–	–	–	4,599,683	4,599,683	126,070	4,725,753
Other comprehensive income	–	–	–	–	362,806	(56,211)	–	306,595	(90,017)	216,578
Total comprehensive income	–	–	–	–	362,806	(56,211)	4,599,683	4,906,278	36,053	4,942,331
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	8,918	8,918
Other movement in capital reserve	–	(8,232)	–	–	–	–	–	(8,232)	8,232	–
Appropriation to surplus reserve	–	–	111,593	–	–	–	(111,593)	–	–	–
Appropriation to general reserve	–	–	–	962,189	–	–	(962,189)	–	–	–
Dividends approved in respect of the previous year	–	–	–	–	–	–	(2,005,661)	(2,005,661)	(13,051)	(2,018,712)
As at 31 December 2017	20,056,606	4,436,714	3,017,174	9,860,962	(295,204)	(52,459)	18,173,404	55,197,197	1,808,581	57,005,778

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company									
		Reserves								
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	(Note 50)	(Note 51)	(Note 51)	(Note 51)	(Note 51)	(Note 51)	(Note 51)			
As at 1 January 2018	20,056,606	4,436,714	3,017,174	9,860,962	(295,204)	(52,459)	18,173,404	55,197,197	1,808,581	57,005,778
Impact on initial application of IFRS 9	–	–	204	67,321	(332,548)	–	251,074	(13,949)	(113)	(14,062)
Adjusted balance as at 1 January 2018	20,056,606	4,436,714	3,017,378	9,928,283	(627,752)	(52,459)	18,424,478	55,183,248	1,808,468	56,991,716
Changes in equity for 2018										
Profit for the year	–	–	–	–	–	–	4,160,189	4,160,189	87,619	4,247,808
Other comprehensive income	–	–	–	–	(851,682)	52,032	–	(799,650)	63,224	(736,426)
Total comprehensive income	–	–	–	–	(851,682)	52,032	4,160,189	3,360,539	150,843	3,511,382
Issuance of ordinary shares	2,479,339	9,502,996	–	–	–	–	–	11,982,335	–	11,982,335
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	13,230	13,230
Appropriation to surplus reserve	–	–	167,004	–	–	–	(167,004)	–	–	–
Appropriation to general reserve	–	–	–	1,148,701	–	–	(1,148,701)	–	–	–
Dividends approved in respect of the previous year	–	–	–	–	–	–	(1,126,797)	(1,126,797)	(175,937)	(1,302,734)
As at 31 December 2018	22,535,945	13,939,710	3,184,382	11,076,984	(1,479,434)	(427)	20,142,165	69,399,325	1,796,604	71,195,929

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

6 Consolidated statements of cash flows

(Expressed in thousands of Renminbi, unless otherwise stated)

	2016	2017	2018
Cash flows from operating activities:			
Profit before income tax	6,385,312	5,927,493	5,187,265
Adjustments for:			
Interest expenses	5,387,011	6,389,618	8,089,087
Share of profit of associates and joint ventures	(211,761)	(223,171)	(211,596)
Depreciation and amortization expenses	286,027	295,526	297,909
Provision for impairment losses	450,770	428,532	658,745
Losses / (gains) on disposal of property and equipment and other intangible assets	6,442	9,655	(58)
Foreign exchange gains	(11,179)	(2,035)	(4,715)
Net investment gains from financial assets at fair value through other comprehensive income	–	–	(2,146,694)
Net investment gains from available-for-sale financial assets and other investments	(1,874,949)	(2,165,192)	–
Interest income from financial assets measured at amortized cost	–	–	(798,992)
Unrealised fair value changes of financial instruments at fair value through profit or loss	943,886	122,976	(72,933)
Unrealised fair value changes of derivative financial instruments	74,080	(33,393)	140,060
Operating cash flows before movements in working capital	11,435,639	10,750,009	11,138,078
Changes in operating assets			
(Increase)/decrease in refundable deposits	(635,082)	301,519	(371,269)
Decrease in margin accounts receivable	15,581,286	103,297	12,683,255
Decrease/(increase) in accounts receivable, other receivables and prepayments	16,708	(961,012)	(815,384)
Increase in financial assets held under resale agreements	(6,904,159)	(26,165,325)	(9,052,114)
Decrease/(increase) in financial instruments at fair value through profit or loss	22,625,627	(12,332,623)	(36,006,449)
(Increase)/decrease in derivative financial instruments	(65,877)	44,645	(163,217)
Decrease in cash held on behalf of brokerage clients	43,688,321	24,589,900	4,485,162
Changes in operating liabilities			
Decrease in accounts payable to brokerage clients	(43,076,246)	(26,075,645)	(3,358,208)
Decrease in other payables and accruals and other non-current liabilities	(2,392,083)	(3,783,030)	(1,284,793)
Decrease in employee benefits payable	(662,045)	(1,872,957)	(378,370)
(Decrease)/increase in financial assets sold under repurchase agreements	(30,363,447)	29,881,759	14,512,388
Increase in placements from other financial institutions	3,000,000	4,900,000	3,718,941
Cash generated from/(used in) operations	12,248,642	(619,463)	(4,891,980)
Income taxes paid	(3,979,207)	(1,983,780)	(868,536)
Interest paid for operating activities	(3,087,695)	(3,392,279)	(3,636,479)
Net cash generated from/(used in) operating activities	5,181,740	(5,995,522)	(9,396,995)

The accompanying notes form part of the Historical Financial Information.

I HISTORICAL FINANCIAL INFORMATION (Continued)

6 Consolidated statements of cash flows (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	2016	2017	2018
Cash flows from investing activities:				
Proceeds from disposal of property and equipment and other intangible assets		4,141	6,092	5,709
Dividends received from associates and joint ventures		214,978	91,657	46,163
Interest income from financial assets measured at amortized cost		–	–	806,312
Net investment gains from financial assets at fair value through other comprehensive income		–	–	1,693,724
Net investment gains from available-for-sale financial assets		1,987,317	1,919,729	–
Proceeds on disposal of financial assets measured at amortized cost		–	–	326,844
Purchases of property and equipment, other intangible assets and other non-current assets		(245,429)	(294,938)	(260,694)
Purchases of associates and joint ventures		(256,000)	(770,470)	(362,600)
Purchases of financial assets at fair value through other comprehensive income		–	–	(2,425,339)
Purchases of available-for-sale financial assets		(13,788,306)	(6,096,316)	–
Decrease/(increase) in restricted bank deposits		3,893,227	(2,137,227)	(3,439,371)
Purchases of investments classified as receivables and other investments		–	(782,074)	–
Net cash used in investing activities		(8,190,072)	(8,063,547)	(3,609,252)

		2016	2017	2018
Cash flows from financing activities:				
Capital injection from issuance of ordinary shares		–	–	11,982,335
Capital injection from non-controlling shareholders of subsidiaries		23,925	8,918	13,230
Proceeds from issuance of long-term bonds		40,106,542	19,212,350	38,835,200
Proceeds from issuance of short-term debt instruments		9,648,700	26,451,337	39,607,528
Proceeds from loans and borrowings		555,193	2,757,344	717,585
Long-term bonds repaid		(4,192,486)	(16,420,949)	(17,249,700)
Short-term debt instruments repaid		(30,793,896)	(14,417,600)	(41,632,714)
Loans and borrowings repaid		(640,567)	(555,193)	(2,106,544)
Loans, bonds and debt instruments interest paid		(2,374,098)	(2,257,260)	(3,067,039)
Dividends paid		(2,323,844)	(2,019,174)	(1,302,734)
Net cash generated from financing activities		10,009,469	12,759,773	25,797,147
Net increase/(decrease) in cash and cash equivalents		7,001,137	(1,299,296)	12,790,900
Cash and cash equivalents at the beginning of the year		21,276,037	28,288,353	26,991,092
Effect of foreign exchange rate changes		11,179	2,035	4,715
Cash and cash equivalents at the end of the year	38	28,288,353	26,991,092	39,786,707

The accompanying notes form part of the Historical Financial Information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1 GENERAL INFORMATION

Shenwan Hongyuan Group Co., Ltd. (申萬宏源集團股份有限公司) (the "Company"), formerly known as Shenyin Wanguo Securities Co., Ltd., had its origin in a merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai Wanguo Securities Co., Ltd. in 1996 with the approval of the People's Bank of China. On 16 January 2015, the Company changed its name to Shenwan Hongyuan Group Co., Ltd., when Shenyin Wanguo Securities Co., Ltd. and Hongyuan Securities Co., Ltd. merged through share issuance and swap as approved by the China Securities Regulatory Commission ("CSRC") (CSRC Xu Ke [2014] No. 1279).

On 26 January 2015, the common shares issued by the Company were listed on the Shenzhen Stock Exchange. The stock name was "Shenwan Hongyuan" and the stock code was "000166".

On 6 July 2016, on the basis of the total outstanding shares of 14,856,744,977 shares as at 31 December 2015, the Company distributed 3.50 shares per 10 shares as stock dividends to shareholders, thus increasing its registered capital by RMB 5,199,860,741 and increasing its total outstanding shares to 20,056,605,718 shares as at 31 December 2016 and 31 December 2017.

As of 16 January 2018, the Company raised a total of RMB 11,972,900,760 from the non-public offering of shares, of which paid-in capital was RMB 2,479,338,842 and share premium totaled RMB 9,493,561,918, thus increasing the accumulated total outstanding shares of the Company to 22,535,944,560 shares as at 31 December 2018.

The Company is registered in the Xinjiang Uygur Autonomous Region. The Company and its subsidiaries are principally engaged in securities brokerage, margin financing and securities lending, securities-backed lending, proprietary securities business, securities underwriting and sponsoring, securities asset management, fund management, stock option market making, futures brokerage, direct investment, innovative investment etc.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation and presentation of Historical Financial Information

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of section II.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Group has consistently applied IFRSs, which are effective for the accounting period beginning on 1 January 2018 throughout the Relevant Periods except that the Company adopted IFRS 9, *Financial Instruments* on 1 January 2018. The accounting policies for financial instruments under IFRS 9 are set out in Note 2(10).

The Group has early adopted IFRS 15, *Revenue from contracts with customers* to the Relevant Periods. The Group's accounting policies with respect to revenue recognition are set out in Note 2(24).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Basis of preparation and presentation of Historical Financial Information (Continued)

IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. Adoption of IFRS 15 had no material impact on the Group's Historical Financial Information. No restatement of the opening balance of comparative period retained earnings was made due to the adoption of IFRS 15.

The revised and new accounting standards and interpretations issued but neither effective for the accounting period ended 31 December 2018 nor adopted by the Group are set out in Note 60.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

(2) Basis of measurement

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets (before 1 January 2018) and fair value through other comprehensive income (from 1 January 2018). The methods used to measure fair value are discussed further in Note 2(11).

(3) Functional and presentation currency

The Historical Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Company and its subsidiaries established in the PRC. All historical financial information presented in RMB has been rounded to the nearest thousands, except when otherwise indicated. The Group translates the financial statements of subsidiaries from their respective presentation currencies into the Group's presentation currency if the subsidiaries' presentation currencies are not the same as that of the Group.

(4) Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Use of estimates and judgements (Continued)

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the Historical Financial Information is included in the following notes:

Note 2(6)—consolidation: whether the Group has control over a structured entity.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the end of the Relevant Periods that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Note 2(11)—measurement of fair value;

Note 2(10)—measurement of 'expected credit loss' (ECL) allowance for financial assets;

Note 2(20)—recognition of deferred tax assets;

Note 2(18)—the impairment of non-financial assets;

Note 2(15), Note 2(16) and Note 2(17)—depreciation rates for investment properties, property and equipment, and other intangible assets.

(5) Changes in significant accounting policies

The Group has initially adopted IFRS 9 Financial Instruments from 1 January 2018. Under the transition methods chosen, comparative information is not restated.

IFRS 9, Financial Instruments

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognizing and measuring financial assets, financial liabilities and hedge accounting**.**

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Changes in significant accounting policies (Continued)

The following table gives a summary of the opening balance adjustments recognized for each line item in the consolidated statement of financial position.

	As at 31 December 2017	Impact on initial application of IFRS 9	As at 1 January 2018
Property and equipment	1,396,070	–	1,396,070
Investment properties	85,125	–	85,125
Other intangible assets	142,007	–	142,007
Interest in associates and joint ventures	1,870,655	–	1,870,655
Financial assets measured at amortized cost	–	6,482,650	6,482,650
Financial assets at fair value through other comprehensive income	–	10,565,481	10,565,481
Available-for-sale financial assets	17,865,020	(17,865,020)	–
Financial assets held under resale agreements	10,482,605	–	10,482,605
Financial assets at fair value through profit or loss	–	1,712,214	1,712,214
Refundable deposits	5,459,343	–	5,459,343
Deferred tax assets	1,310,456	3,338	1,313,794
Other non-current assets	1,083,627	(900,000)	183,627
Total non-current assets	**39,694,908**	**(1,337)**	**39,693,571**
Accounts receivable	1,525,437	–	1,525,437
Other receivables and prepayments	3,949,768	(500,000)	3,449,768
Margin accounts receivable	55,738,717	–	55,738,717
Financial assets measured at amortized cost	–	3,927,490	3,927,490
Financial assets at fair value through other comprehensive income	–	19,133,194	19,133,194
Available-for-sale financial assets	29,122,703	(29,122,703)	–
Financial assets at fair value through profit or loss	49,362,519	6,558,794	55,921,313
Derivative financial assets	6,710	–	6,710
Financial assets held under resale agreements	33,570,721	(1,457)	33,569,264
Clearing settlement funds	2,590,319	–	2,590,319
Cash held on behalf of brokerage clients	62,006,800	–	62,006,800
Cash and bank balances	22,374,696	(8,043)	22,366,653
Total current assets	**260,248,390**	**(12,725)**	**260,235,665**
Total assets	**299,943,298**	**(14,062)**	**299,929,236**
Total current liabilities	**181,900,362**	**–**	**181,900,362**
Net current assets	**78,348,028**	**(12,725)**	**78,335,303**
Total assets less current liabilities	**118,042,936**	**(14,062)**	**118,028,874**
Total non-current liabilities	**61,037,158**	**–**	**61,037,158**
Net assets	**57,005,778**	**(14,062)**	**56,991,716**
Share capital	20,056,606	–	20,056,606
Reserves	16,967,187	(265,023)	16,702,164
Retained profits	18,173,404	251,074	18,424,478
Total equity attributable to shareholders of the Company	**55,197,197**	**(13,949)**	**55,183,248**
Non-controlling interests	**1,808,581**	**(113)**	**1,808,468**
Total equity	**57,005,778**	**(14,062)**	**56,991,716**

Upon the initial application of the IFRS 9 on 1 January 2018, the Group's net assets decreased by RMB14,062 thousand (or 0.02%) on 1 January 2018, which is insignificant to the Group's net assets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Changes in significant accounting policies (Continued)

The details of IFRS 9 and the nature and impact of the changes to previous accounting policies are set out below.

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The following table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

	Classification in IAS 39	Classification in IFRS 9	IAS 39 carrying amount at 31 December 2017	IFRS 9 carrying amount at 1 January 2018
Assets:				
Available-for-sale debt investments	Available-for-sale financial assets	Financial assets at FVOCI	19,083,194	19,083,194
Available-for-sale debt investments	Available-for-sale financial assets	Financial assets at FVTPL	55,003	55,003
Available-for-sale debt investments	Available-for-sale financial assets	Financial assets at amortized cost	9,018,040	10,410,140
Available-for-sale equity investments	Available-for-sale financial assets	Financial assets at FVOCI	10,565,481	10,565,481
Available-for-sale equity investments	Available-for-sale financial assets	Financial assets at FVTPL	8,266,005	8,266,005
Financial assets held for trading, financial assets designated as at FVTPL	Financial assets at FVTPL	Financial assets at FVTPL	49,312,519	49,312,519
Financial assets held for trading, financial assets designated as at FVTPL	Financial assets at FVTPL	Financial assets at FVOCI	50,000	50,000
Total			96,350,242	97,742,342

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Changes in significant accounting policies (Continued)

(ii) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in a change of allowance for impairment as follows.

Loss allowance at 31 December 2017 under IAS 39	1,507,592
Changes of expected credit loss recognized at 1 January 2018 on:	
—Available-for-sale financial assets	(903,227)
—Financial assets at amortized cost	164,141
—Financial assets at fair value through other comprehensive income	85,108
—Financial assets held under resale agreements	1,456
—Cash and bank balances	8,043
Loss allowance at 1 January 2018 under IFRS 9	863,113

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to IAS 39 to be applied and the assessment is always forward-looking. The adoption of the IFRS 9 hedge accounting model has not had a significant impact on the Group's Historical Financial Information.

(6) Basis of consolidation

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the consolidated Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Basis of consolidation (Continued)

(i) Subsidiaries and non-controlling interests (Continued)

the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(10)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(6)(ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(18)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Basis of consolidation (Continued)

(ii) Associates and joint ventures (Continued)

Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(7) and 2(18)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(10)).

In the Company's statement of financial position, investments in associates and joint venture of the Company are accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(18)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(8) Foreign currency

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China (PBOC), the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the Relevant Periods. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognized in profit or loss, except for the differences arising from the translation of available-for-sale financial assets (before 1 January 2018), and FVOCI (from 1 January 2018), which are recognized as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of the Relevant Periods. The equity items, excluding "retained profits", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operations are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Foreign currency (Continued)

the transaction dates. The resulting translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognized in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

(9) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(10) Financial instruments

(i) Recognition and initial measurement

Financial instruments are recognized / derecognized on the date the Group commits to purchase/sell the investment. Financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVTPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 2(11). Financial instruments are subsequently accounted for as follows, depending on their classification.

(ii) Classification and subsequent measurement

Financial instruments—Policy applicable before 1 January 2018

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated as at fair value through profit or loss.

Financial assets and financial liabilities are designated as at fair value through profit or loss upon initial recognition in either of the following circumstances:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial instruments—Policy applicable before 1 January 2018 (Continued)

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading) (Continued)

- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses (see Note 2(10)(iii)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than:

- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see Note 2(10)(iii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial instruments—Policy applicable before 1 January 2018 (Continued)

Held-to-maturity investments (Continued)

- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses are recognized in profit or loss (see Note 2(10)(iii)).

Other fair value changes, other than impairment losses (see Note 2(10)(iii)), are recognized in other comprehensive income and presented in the fair value reserve within equity. When the investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

Financial instruments—Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial instruments—Policy applicable from 1 January 2018 (Continued)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets—Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial instruments—Policy applicable from 1 January 2018 (Continued)

Financial assets—Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets—Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments not held for trading at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial instruments—Policy applicable from 1 January 2018 (Continued)

Financial liabilities — Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. The fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk is recognized in OCI (without reclassification to profit or loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(iii) Impairment

Financial assets — Policy applicable before 1 January 2018

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but is not limited to:

- significant financial difficulty of the borrower or issuer;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(iii) Impairment (Continued)

Financial assets — Policy applicable before 1 January 2018 (Continued)

Loans and receivables

Loans and receivables are assessed for impairment on an individual basis and/or on a collective group basis as follows.

Where impairment is assessed on an individual basis, an impairment loss in respect of a loan and receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognized in profit or loss.

The assessment is made collectively where loans and receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

Available-for-sale financial assets

The Group assesses impairment losses on both individual and collective basis. Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(iii) Impairment (Continued)

Financial assets — Policy applicable before 1 January 2018 (Continued)

Available-for-sale financial assets (Continued)

cost. A significant or prolonged decline in the fair value of an equity investment is an indicator of impairment in such investments where a decline in the fair value of equity investment below its initial cost by 50% or more; or fair value below cost in declining trend for one year or longer, upon which impairment loss is recognized. The Group also takes into consideration of other specific relevant factors through the whole investing period when assessing whether there is objective evidence that the available-for-sale equity investment is under a significant or prolonged decline in the fair value.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognized in OCI.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

Financial assets—Policy applicable from 1 January 2018

The Group recognizes loss allowances for ECLs on the following items:

- financial assets measured at amortized cost;
- contract assets; and
- debt investments measured at FVOCI

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVTPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(iii) Impairment (Continued)

Financial assets—Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Significant increases in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(iii) Impairment (Continued)

Financial assets—Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless it has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group assumes that default occurs when a financial asset is 90 days past due unless it has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(iii) Impairment (Continued)

Financial assets—Policy applicable from 1 January 2018 (Continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iv) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Financial instruments (Continued)

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi) Derivative financial instruments

Derivative financial instruments are recognized at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(11) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Margin financing and securities lending

Margin financing and securities lending refers to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The classification, subsequent measurement and impairment of margin financing receivables is based on policies in Note 2(10). Securities lent are not derecognized when the risks and rewards are not transferred, and interest income from margin financing receivables and securities lent is recognized using the effective interest rate method.

The collateral is not recognized on the statement of financial position, the transfer of the collateral from counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Securities trading on behalf of margin financing or securities lending customers is accounted for as securities brokerage business.

(13) Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognized as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognized in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(14) Investments in subsidiaries

In the Group's Historical Financial Information, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(6).

In the Company's statements of financial position, investments in subsidiaries are accounted for using the cost method. The investment is stated at cost less impairment loss (Note 2(18)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for using the cost model and stated in the financial statements at cost less accumulated depreciation, and impairment losses (see Note 2(18)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale.

The estimated useful lives for the Relevant Periods of significant items of investment properties are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Buildings	20 - 35 years	5%	2.71% - 4.75%

(16) Property and equipment and construction in progress

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Property and equipment and construction in progress (Continued)

(i) Recognition and measurement (Continued)

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally recognized in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for Relevant Periods of significant items of property and equipment are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Buildings	20 - 35 years	5%	2.71%-4.75%
Motor vehicles	6 years	5%	15.83%
Machinery	10 - 11 years	5%	8.64%-9.50%
Electronic equipment	3 - 5 years	5%	19.00%-31.67%
Furniture and fixtures	5 years	5%	19.00%
Renovation	5 years	0%	20.00%

Depreciation methods, useful lives and residual values are reviewed at each end of the Relevant Periods and adjusted if appropriate.

(17) Other intangible assets

Intangible assets are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment loss (see Note 2(18)). For an intangible asset with finite useful life, its cost less impairment loss is amortized on the straight-line method over its estimated useful life.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(17) Other intangible assets (Continued)

The respective amortization periods for major intangible assets during the Relevant Periods are as follows:

Types of assets	Estimated useful lives
Software	3 years
Others	10-40 years

An intangible asset is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

(18) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each end of the Relevant Periods to determine whether there is any indication of impairment:

- property and equipment
- investment property
- other intangible assets
- equity investment in subsidiaries
- goodwill
- leasehold improvements and long-term deferred expenses

If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Impairment of non-financial assets (Continued)

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(19) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the end of the Relevant Periods, then they are discounted to their present value.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the end of the Relevant Periods, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the Relevant Periods, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the Relevant Periods.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each Relevant Periods and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax (Continued)

(iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(21) Operating leases

(i) Operating lease charges

Rental payments under operating leases are recognized as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognized as expenses in the accounting period in which they are incurred.

(ii) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(16)(iii). Impairment losses are recognized in accordance with the accounting policies described in Note 2(18). Income derived from operating leases is recognized in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortized in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognized as income in the accounting period in which they are earned.

(22) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(23) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

(24) Revenue recognition

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer and includes in the transaction price some or all of the variable consideration estimated, such that revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Commission income from brokerage business

Brokerage commission income is recognized on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognized when the related services are rendered.

(ii) Underwriting and sponsoring fees

Underwriting fee is recognized when the Group has fulfilled its obligations under the underwriting contract.

Depending on contract terms, sponsoring fees are recognized progressively over time using a method that depicts the Group's performance, or at a point in time when the service is completed.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(24) Revenue recognition (Continued)

(iii) Advisory fees

Depending on the nature of the advisory services and the contract terms, advisory fees are recognized progressively over time using a method that depicts the Group's performance, or at a point in time when the advisory service is completed.

(iv) Asset management fees

Asset management fees include periodic management fees calculated based on assets under management and performance-based fees. The fees are recognized progressively over time using a method that depicts the Group's performance, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

(v) Interest income

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset.

(vi) Dividend income

- Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(vii) Other income

Other income is recognized on an accrual basis.

(25) Expenses recognition

(i) Commission expenses

Commission expenses relate mainly to transactions, which are recognized as expenses when the services are received.

(ii) Interest expenses

Interest expenses are recognized based on the principal outstanding and at the effective interest rate applicable.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(25) Expenses recognition (Continued)

(iii) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the terms of the respective leases. Lease incentives received are recognized as an integral part of the total lease expenses, over the term of the lease.

(iv) Other expenses

Other expenses are recognized on an accrual basis.

(26) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the Relevant Periods, are not recognized as a liability at the end of the Relevant Periods but disclosed in the notes to the Historical Financial Information separately.

(27) Government grants

Government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on a systematic basis in the periods in which the expenses are recognized.

(28) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:
  (i) has control or joint control over the Group;
  (ii) has significant influence over the Group; or
  (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:
  (i) The entity and the Group are members of the same group;
  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  (iii) Both entities are joint ventures of the same third party;
  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  (vi) The entity is controlled or jointly controlled by a person identified in (a);

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(28) Related parties (Continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(29) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial performance is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the Historical Financial Information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

3 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Business tax	Based on taxable revenue before 1 May 2016. According to Caishui [2016] No. 36, jointly issued by Ministry of Finance of the People's Republic of China and the State Administration of Taxation, all taxpayers subject to business tax in the Mainland China are included in the scope of the VAT pilot scheme. Effective from 1 May 2016, those taxpayers are required to pay VAT in lieu of business tax.	5%
Value added tax ("VAT")(i)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period.	2%-17%
City maintenance and construction tax	Based on business tax and value added tax paid	5%-7%
Education surcharge	Based on business tax and value added tax paid	3%-5%
Income tax(ii)	Based on taxable profits	15%-25%

(i) According to Notice on Clarifying VAT Policies for Financial Services, Real Estate Development, and Educational Ancillary Services (Cai Shui [2016] No.140), Supplementary Notice on Issues concerning VAT Policies for Asset Management Products (Cai Shui [2017] No.2) and Notice on Issues Relating to VAT on Fund Management Products (Cai Shui [2017] No.56) issued by the Ministry of Finance and State Administration of Taxation, effective from 1 January 2018, the simple tax computation method shall apply in the interim to VAT taxable acts arising in the course of operation of fund management products by managers of fund management products (hereinafter referred to as the "managers"), and VAT shall be payable in accordance with the 3% levy rate.

(ii) Obtained the GR201431000869 (2014-2016) and GR201731001218 (2017-2019) high-tech enterprise qualification certificate from Shanghai Science and Technology Commission, the corporate income tax rate applicable to SWS Research Co., Ltd., a subsidiary of the Company, is 15%. Except for SWS Research Co., Ltd., the income tax rate applicable to the Company and its domestic subsidiaries is 25%. Taxes of other overseas subsidiaries are charged at the relevant local rates.

4 FEE AND COMMISSION INCOME

(a) Revenue streams

	2016	2017	2018
Income from securities brokerage business	6,926,978	5,348,681	3,878,013
Income from asset management business	1,850,048	1,332,617	1,239,337
Income from underwriting and sponsorship business	1,727,462	1,193,614	652,741
Income from futures brokerage business	475,490	531,399	397,488
Income from financial advisory business	574,112	342,178	251,732
Total	11,554,090	8,748,489	6,419,311

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 FEE AND COMMISSION INCOME (Continued)

(b) Disaggregation of revenue

In the following table, fee and commission income are disaggregated by timing of revenue recognition:

	2016		2017		2018	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
Income from securities brokerage business	6,926,978	–	5,348,681	–	3,878,013	–
Income from asset management business	–	1,850,048	–	1,332,617	–	1,239,337
Income from underwriting and sponsorship business	1,727,462	–	1,193,614	–	652,741	–
Income from futures brokerage business	475,490	–	531,399	–	397,488	–
Income from financial advisory business	574,112	–	342,178	–	251,732	–
Total	9,704,042	1,850,048	7,415,872	1,332,617	5,179,974	1,239,337

5 INTEREST INCOME

	2016	2017	2018
Interest income from financial institutions	2,703,214	2,711,558	2,414,827
Interest income from margin financing and securities lending	4,261,671	4,063,671	3,631,819
Interest income from securities-backed lending	175,275	1,065,541	2,858,252
Interest income from other financial assets held under resale agreements	114,340	298,591	546,038
Total	7,254,500	8,139,361	9,450,936

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET INVESTMENT GAINS

	2016	2017	2018
Net realised gains from disposal of available-for-sale financial assets	951,889	667,170	–
Dividend income and interest income from available-for-sale financial assets	883,708	1,464,406	–
Net realised gains from disposal of financial instruments at fair value through other comprehensive income	–	–	324,245
Dividend income and interest income from financial instruments at fair value through other comprehensive income	–	–	1,822,449
Net realised losses from disposal of financial instruments at fair value through profit or loss	(1,742,798)	(737,383)	(326,579)
Dividend income and interest income from financial instruments at fair value through profit or loss	3,501,008	2,329,482	3,248,483
Net realised gains/(losses) from disposal of derivative financial instruments	57,161	81,896	(155,898)
Interest income from financial assets measured at amortized cost	–	–	798,992
Interest income from held-to-maturity investments	1,367	–	–
Interest income from investments classified as receivables	37,985	33,616	–
Unrealised fair value changes of financial instruments at fair value through profit or loss	(943,886)	(122,976)	72,933
Unrealised fair value changes of derivative financial instruments	(74,080)	33,393	(140,060)
Total	2,672,354	3,749,604	5,644,565

7 OTHER INCOME AND GAINS

(a) Other income and gains streams

	2016	2017	2018
Government grants[1]	161,216	168,948	122,201
Income from tax authorities for individual income tax withheld	21,330	25,073	18,244
Rental income	15,517	29,170	28,326
Foreign exchange gains	11,179	2,035	4,715
Income from commodity trading business	7,506	40,102	2,394,073
Income from disposal of property and equipment	2,551	426	301
Compensation received	2,840	9,687	6,005
Income from futures market-making	–	–	13,964
Miscellaneous[2]	15,737	11,754	6,976
Total	237,876	287,195	2,594,805

(1) The government grants were received unconditionally by the Company and its subsidiaries from the local government where they reside.

(2) Miscellaneous comprise a number of items with small amounts and various natures arising from the Group's daily business operation.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER INCOME AND GAINS (Continued)

(b) Disaggregation of other income and gains

In the following table, other income and gains are disaggregated by timing of revenue recognition:

	2016		2017		2018	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
Government grants	161,216	–	168,948	–	122,201	–
Income from tax authorities for individual income tax withheld	21,330	–	25,073	–	18,244	–
Rental income	–	15,517	–	29,170	–	28,326
Foreign exchange gains	11,179	–	2,035	–	4,715	–
Income from commodity trading business	7,506	–	40,102	–	2,394,073	–
Income from disposal of property and equipment	2,551	–	426	–	301	–
Compensation received	2,840	–	9,687	–	6,005	–
Income from futures market-making	–	–	–	–	13,964	–
Miscellaneous	15,737	–	11,754	–	6,976	–
Total	222,359	15,517	258,025	29,170	2,566,479	28,326

8 FEE AND COMMISSION EXPENSES

	2016	2017	2018
Expenses for securities brokerage business	1,325,318	1,106,171	802,788
Expenses for underwriting and sponsorship business	175,022	138,053	27,092
Expenses for futures brokerage business	93,166	95,747	74,817
Expenses for asset management business	45,928	29,538	40,681
Expenses for financial advisory business	11,501	721	1,256
Total	1,650,935	1,370,230	946,634

9 INTEREST EXPENSES

	2016	2017	2018
Interest expenses for			
—Financial assets sold under repurchase agreements	2,063,792	2,258,398	2,738,898
—Long-term bonds	1,839,338	2,552,240	3,356,690
—Other structured entities' holders	480,584	472,509	312,823
—Short-term debt instruments issued	428,857	517,337	870,371
—Accounts payable to brokerage clients	384,498	292,245	250,035
—Placements from other financial institutions	93,266	219,948	412,634
—Loans and borrowings	31,121	57,593	108,129
—Others	65,555	19,348	39,507
Total	5,387,011	6,389,618	8,089,087

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

10 STAFF COSTS

	2016	2017	2018
Salaries, bonuses and allowances	4,777,887	3,907,007	3,953,589
Contribution to pension schemes	237,608	270,593	304,142
Other social welfare	745,410	862,992	920,212
Total	5,760,905	5,040,592	5,177,943

The domestic employees of the Group in the PRC participate in social welfare plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labour and social welfare authorities. These social welfare plans are defined contribution plans and contributions to the plans are expensed as incurred.

11 DEPRECIATION AND AMORTIZATION EXPENSES

	2016	2017	2018
Depreciation of property and equipment	172,546	178,005	176,621
Amortization of other intangible assets	51,537	56,794	67,153
Amortization of long-term deferred expenses	57,187	55,286	49,040
Amortization of investment properties	4,757	5,441	5,095
Total	286,027	295,526	297,909

12 OTHER OPERATING EXPENSES

	2016	2017	2018
Rental expenses and utilities	437,488	440,346	451,484
Administrative and office operating expenses	223,295	230,928	222,363
Promotion and entertainment expenses	155,460	118,702	123,264
IT expenses	131,886	126,127	114,024
Postal and communication expenses	131,787	133,331	144,461
Business travel expenses	96,291	101,822	99,674
Investor protection funds and risk reserves for futures business	94,091	74,442	78,530
Stock exchanges management fees	82,483	69,965	72,187
Funds and asset management plans distribution expenses	65,550	66,160	72,777
Consulting and professional services	57,206	60,722	62,886
Transaction cost of structured entities	27,933	15,667	22,483
Losses on disposal of property and equipment	8,993	10,081	3,184
Donation and sponsorship	7,943	17,442	13,074
Information advisory fee	7,143	8,898	–
Compensation paid	6,488	3,040	1,388
Auditors' remuneration	5,771	5,682	5,388
Labor protection fee	3,811	12,997	5,841
Cost of commodity trading business	–	37,614	2,298,034
Miscellaneous(1)	41,179	48,196	42,139
Total	1,584,798	1,582,162	3,833,181

(1) Miscellaneous comprise a number of items with small amounts and various natures arising from the Group's daily business operation.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

13 PROVISION FOR IMPAIRMENT LOSSES

	2016	2017	2018
Provision for impairment losses against available-for-sale financial assets	434,914	242,417	–
Provision for impairment losses against financial assets held under resale agreements	26,916	130,631	463,042
Provision for impairment losses against accounts receivable	13,757	33,093	68,334
Provision for/(reversal of) for impairment losses against other receivables and prepayments	6,132	(4,671)	68,193
(Reversal of)/provision for impairment losses against margin accounts receivable	(30,949)	27,062	(51,512)
Reversal of impairment losses against cash and bank balances	–	–	(1,888)
Provision for impairment losses against financial assets measured at amortized cost	–	–	23,166
Provision for impairment losses against financial assets at fair value through other comprehensive income	–	–	89,410
Total	450,770	428,532	658,745

14 INCOME TAX EXPENSE

(a) Taxation in the consolidated statements of profit or loss represents:

	2016	2017	2018
Current tax			
—PRC income tax	1,604,481	1,195,102	1,382,974
—Hong Kong profits tax	6,500	8,593	4,468
	1,610,981	1,203,695	1,387,442
Adjustment in respect of prior years			
—PRC income tax	63	158,634	(36,158)
Deferred tax			
—Origination and reversal of temporary differences	(754,017)	(160,589)	(411,827)
Total	857,027	1,201,740	939,457

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

14 INCOME TAX EXPENSE (Continued)

(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

	2016	2017	2018
Profit before income tax	6,385,312	5,927,493	5,187,265
Notional tax calculated using the PRC statutory tax rate	1,596,328	1,481,873	1,296,816
Tax effect of non-deductible expenses	20,196	28,603	49,139
Tax effect of non-taxable income	(594,991)	(293,275)	(392,216)
Effect of different tax rates of subsidiaries	(3,718)	(8,969)	(9,237)
Temporary differences in deferred income tax not recognized in the current period	14,892	3,836	2,891
Tax effect of recognition of previously unrecognized temporary differences	(175,743)	(168,962)	–
Adjustment for prior years	63	158,634	(36,158)
Others	–	–	28,222
Actual income tax expense	857,027	1,201,740	939,457

15 DIRECTORS' AND SUPERVISORS' REMUNERATION

The remuneration of directors and supervisors paid by the Group who held office during the Relevant Periods is as follows:

	2016				
Name	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Directors					
Chu Xiaoming[1]	–	1,187	161	2,745	4,093
Feng Rong[2]	–	883	119	2,036	3,038
Chen Liang[3]	–	883	119	1,959	2,961
Qu Yanping[4]	–	–	–	–	–
Li Jun[5]	–	–	–	–	–
Wang Honggang[6]	–	–	–	–	–
Zhang Xinmei[7]	–	–	–	–	–
Independent directors					
Ye Mei[8]	180	–	–	–	180
Xie Rong[9]	180	–	–	–	180
Huang Danhan[10]	150	–	–	–	150
Supervisors					
Yang Yucheng[11]	–	883	119	1,959	2,961
Wen Feng[12]	–	–	–	–	–
Gong Bo[13]	–	–	–	–	–
Jiang Yang[14]	–	–	–	–	–
Wei Yong[15]	–	–	–	–	–
Xu Qi[16]	–	–	–	–	–
Huang Qi[17]	–	996	120	1,541	2,657
Wang Yanyang[18]	–	664	78	–	742
Xie Kun[19]	–	993	114	1,130	2,237
An Gejun[20]	–	869	108	1,155	2,132
Zhou Bing[21]	–	364	47	1,054	1,465
Total	510	7,722	985	13,579	22,796

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2017				
Name	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Directors					
Chu Xiaoming[1]	–	1,505	202	2,222	3,929
Feng Rong[2]	–	1,452	151	1,549	3,152
Chen Liang[3]	–	1,517	152	1,665	3,334
Qu Yanping[4]	–	–	–	–	–
Li Jun[5]	–	–	–	–	–
Wang Honggang[6]	–	–	–	–	–
Chen Jianmin[22]	–	–	–	–	–
Independent directors					
Ye Mei[8]	180	–	–	–	180
Xie Rong[9]	180	–	–	–	180
Huang Danhan[10]	150	–	–	–	150
Supervisors					
Yang Yucheng[11]	–	1,517	150	1,607	3,274
Wen Feng[12]	–	–	–	–	–
Gong Bo[13]	–	–	–	–	–
Jiang Yang[14]	–	–	–	–	–
Wei Yong[15]	–	–	–	–	–
Huang Qi[17]	–	974	151	1,204	2,329
Wang Yanyang[18]	–	948	147	1,124	2,219
Xie Kun[19]	–	1,041	197	1,237	2,475
An Gejun[20]	–	872	134	548	1,554
Total	510	9,826	1,284	11,156	22,776

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2018				
Name	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Directors					
Chu Xiaoming(1)	–	1,504	216	820	2,540
Feng Rong(2)	–	1,457	213	598	2,268
Chen Liang(3)	–	1,521	219	769	2,509
Qu Yanping(4)	–	–	–	–	–
Li Jun(5)	–	–	–	–	–
Wang Honggang(6)	–	–	–	–	–
Chen Jianmin(22)	–	–	–	–	–
Independent directors					
Ye Mei(8)	180	–	–	–	180
Xie Rong(9)	180	–	–	–	180
Huang Danhan(10)	150	–	–	–	150
Supervisors					
Yang Yucheng(11)	–	1,521	215	750	2,486
Wen Feng(12)	–	–	–	–	–
Gong Bo(13)	–	–	–	–	–
Wei Yong(15)	–	–	–	–	–
Huang Qi(17)	–	983	177	800	1,960
Wang Yanyang(18)	–	927	173	800	1,900
Xie Kun(19)	–	1,064	183	849	2,096
An Gejun(20)	–	802	155	312	1,269
Total	510	9,779	1,551	5,698	17,538

(1) Appointed as director in December 2010.
(2) Appointed as director in February 2015.
(3) Appointed as director in February 2015.
(4) Appointed as director in November 2010.
(5) Appointed as director in December 2012 and resigned as director in February 2017.
(6) Appointed as director in September 2016.
(7) Appointed as director in December 2012 and resigned as director in September 2016.
(8) Appointed as independent director in December 2012.
(9) Appointed as independent director in December 2012.
(10) Appointed as independent director in December 2012.
(11) Appointed as supervisor in February 2015.
(12) Appointed as supervisor in February 2015.
(13) Appointed as supervisor in December 2012.
(14) Appointed as supervisor in February 2015 and resigned as supervisor in March 2017.
(15) Appointed as supervisor in September 2016.
(16) Appointed as supervisor in December 2012 and resigned as supervisor in August 2016.
(17) Appointed as supervisor in May 2015.
(18) Appointed as supervisor in May 2016.
(19) Appointed as supervisor in May 2015.
(20) Appointed as supervisor in May 2015.
(21) Appointed as supervisor in May 2015 and resigned as supervisor in May 2016.
(22) Appointed as director in February 2017.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

There were no amounts paid during the Relevant Periods to the directors and supervisors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Periods.

16 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none are directors or supervisors whose emoluments are disclosed in Note 15. The aggregate of the emoluments are as follows:

	2016	2017	2018
Salaries and allowances	4,975	3,380	5,445
Discretionary bonuses	41,440	105,294	37,869
Employer's contribution to pension schemes	835	643	930
Total	47,250	109,317	44,244

The emoluments with the highest emoluments are within the following bands:

	2016	2017	2018
	Number of individuals	Number of individuals	Number of individuals
HKD7,000,001 to HKD8,000,000	–	–	1
HKD8,000,001 to HKD9,000,000	–	–	1
HKD9,000,001 to HKD10,000,000	2	–	1
HKD10,000,001 to HKD11,000,000	1	–	–
HKD11,000,001 to HKD12,000,000	1	–	1
HKD12,000,001 to HKD13,000,000	–	–	–
HKD13,000,001 to HKD14,000,000	–	–	–
HKD14,000,001 to HKD15,000,000	1	–	–
HKD15,000,001 to HKD16,000,000	–	–	–
HKD16,000,001 to HKD17,000,000	–	–	1
HKD17,000,001 to HKD18,000,000	–	–	–
HKD18,000,001 to HKD19,000,000	–	–	–
HKD19,000,001 to HKD20,000,000	–	2	–
HKD20,000,001 to HKD25,000,000	–	1	–
HKD25,000,001 to HKD30,000,000	–	1	–
HKD30,000,001 to HKD35,000,000	–	–	–
HKD35,000,001 to HKD40,000,000	–	1	–

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue.

	2016	2017	2018
Profit attributable to shareholders of the Company	5,409,058	4,599,683	4,160,189
Weighted average number of ordinary shares in issue *(thousands)*	20,056,606	20,056,606	22,329,333
Basic and diluted earnings per share attributable to equity shareholders *(in Renminbi per share)*	0.2697	0.2293	0.1863

During the Relevant Periods, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT

The Group

	Buildings	Motor vehicles	Machinery	Electronic equipment	Furniture and fixtures	Renovation	Construction in progress	Total
Cost								
As at 1 January 2016	1,499,301	115,648	23,412	1,081,689	66,610	68,155	119,813	2,974,628
Additions	83,288	16	434	68,301	6,403	638	111,738	270,818
Transfer during the year	4,203	–	–	64,330	159	30,300	(159,012)	(60,020)
Disposals	(470)	(1,354)	(718)	(44,811)	(3,645)	(7,129)	–	(58,127)
As at 31 December 2016	1,586,322	114,310	23,128	1,169,509	69,527	91,964	72,539	3,127,299
Accumulated depreciation								
As at 1 January 2016	(503,835)	(83,083)	(15,481)	(874,929)	(51,337)	(44,155)	–	(1,572,820)
Transfer during the year	(1,792)	–	–	–	–	–	–	(1,792)
Charge for the year	(52,596)	(12,048)	(1,077)	(86,299)	(9,259)	(11,267)	–	(172,546)
Disposals	427	1,205	552	41,884	3,467	6,931	–	54,466
As at 31 December 2016	(557,796)	(93,926)	(16,006)	(919,344)	(57,129)	(48,491)	–	(1,692,692)
Impairment								
As at 1 January 2016	(18,153)	–	–	–	–	–	–	(18,153)
As at 31 December 2016	(18,153)	–	–	–	–	–	–	(18,153)
Carrying amount								
As at 31 December 2016	1,010,373	20,384	7,122	250,165	12,398	43,473	72,539	1,416,454

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Group (Continued)

	Buildings	Motor vehicles	Machinery	Electronic equipment	Furniture and fixtures	Renovation	Construction in progress	Total
Cost								
As at 1 January 2017	1,586,322	114,310	23,128	1,169,509	69,527	91,964	72,539	3,127,299
Additions	68,576	4,278	–	79,601	5,421	45	83,049	240,970
Transfer during the year	3,594	–	–	8,047	153	7,335	(87,377)	(68,248)
Disposals	–	(8,667)	(868)	(168,234)	(3,757)	(5,874)	–	(187,400)
As at 31 December 2017	1,658,492	109,921	22,260	1,088,923	71,344	93,470	68,211	3,112,621
Accumulated depreciation								
As at 1 January 2017	(557,796)	(93,926)	(16,006)	(919,344)	(57,129)	(48,491)	–	(1,692,692)
Transfer during the year	(1,555)	–	–	–	–	–	–	(1,555)
Charge for the year	(53,304)	(6,489)	(1,085)	(93,964)	(7,295)	(15,868)	–	(178,005)
Disposals	–	6,855	825	156,789	3,611	5,774	–	173,854
As at 31 December 2017	(612,655)	(93,560)	(16,266)	(856,519)	(60,813)	(58,585)	–	(1,698,398)
Impairment								
As at 1 January 2017	(18,153)	–	–	–	–	–	–	(18,153)
As at 31 December 2017	(18,153)	–	–	–	–	–	–	(18,153)
Carrying amount								
As at 31 December 2017	1,027,684	16,361	5,994	232,404	10,531	34,885	68,211	1,396,070

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Group (Continued)

	Buildings	Motor vehicles	Machinery	Electronic equipment	Furniture and fixtures	Renovation	Construction in progress	Total
Cost								
As at 1 January 2018	1,658,492	109,921	22,260	1,088,923	71,344	93,470	68,211	3,112,621
Additions	–	4,010	41	81,683	3,257	183	130,773	219,947
Transfer during the year	23,640	522	–	13,867	344	634	(88,520)	(49,513)
Disposals	–	(11,502)	(661)	(75,241)	(4,055)	(1,169)	–	(92,628)
As at 31 December 2018	1,682,132	102,951	21,640	1,109,232	70,890	93,118	110,464	3,190,427
Accumulated depreciation								
As at 1 January 2018	(612,655)	(93,560)	(16,266)	(856,519)	(60,813)	(58,585)	–	(1,698,398)
Transfer during the year	(10,292)	–	–	–	–	–	–	(10,292)
Charge for the year	(54,139)	(5,741)	(1,069)	(98,366)	(6,338)	(10,968)	–	(176,621)
Disposals	–	10,743	514	70,932	3,630	1,157	–	86,976
As at 31 December 2018	(677,086)	(88,558)	(16,821)	(883,953)	(63,521)	(68,396)	–	(1,798,335)
Impairment								
As at 1 January 2018	(18,153)	–	–	–	–	–	–	(18,153)
As at 31 December 2018	(18,153)	–	–	–	–	–	–	(18,153)
Carrying amount								
As at 31 December 2018	986,893	14,393	4,819	225,279	7,369	24,722	110,464	1,373,939

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Company

	Buildings	Electronic equipment	Furniture and fixtures	Renovation	Total
Cost					
As at 1 January 2016	738,693	36	–	17,229	755,958
Additions	–	217	55	–	272
Disposals	(412,625)	–	–	–	(412,625)
As at 31 December 2016	326,068	253	55	17,229	343,605
Accumulated depreciation					
As at 1 January 2016	(132,276)	(4)	–	(5,917)	(138,197)
Charge for the year	(11,756)	(51)	(4)	(5,043)	(16,854)
Disposals	62,738	–	–	–	62,738
As at 31 December 2016	(81,294)	(55)	(4)	(10,960)	(92,313)
Impairment					
As at 1 January 2016	(17,869)	–	–	–	(17,869)
As at 31 December 2016	(17,869)	–	–	–	(17,869)
Carrying amount					
As at 31 December 2016	226,905	198	51	6,269	233,423

	Buildings	Electronic equipment	Furniture and fixtures	Renovation	Total
Cost					
As at 1 January 2017	326,068	253	55	17,229	343,605
Additions	–	56	67	–	123
Transfer during the year	65,226	–	–	–	65,226
As at 31 December 2017	391,294	309	122	17,229	408,954
Accumulated depreciation					
As at 1 January 2017	(81,294)	(55)	(4)	(10,960)	(92,313)
Transfer during the year	(12,112)	–	–	–	(12,112)
Charge for the year	(13,832)	(80)	(14)	(5,194)	(19,120)
As at 31 December 2017	(107,238)	(135)	(18)	(16,154)	(123,545)
Impairment					
As at 1 January 2017	(17,869)	–	–	–	(17,869)
As at 31 December 2017	(17,869)	–	–	–	(17,869)
Carrying amount					
As at 31 December 2017	266,187	174	104	1,075	267,540

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Company (Continued)

	Buildings	Electronic equipment	Furniture and fixtures	Renovation	Total
Cost					
As at 1 January 2018	391,294	309	122	17,229	408,954
Additions	–	196	–	–	196
As at 31 December 2018	391,294	505	122	17,229	409,150
Accumulated depreciation					
As at 1 January 2018	(107,238)	(135)	(18)	(16,154)	(123,545)
Charge for the year	(12,404)	(107)	(23)	(601)	(13,135)
As at 31 December 2018	(119,642)	(242)	(41)	(16,755)	(136,680)
Impairment					
As at 1 January 2018	(17,869)	–	–	–	(17,869)
As at 31 December 2018	(17,869)	–	–	–	(17,869)
Carrying amount					
As at 31 December 2018	253,783	263	81	474	254,601

As at the end of 31 December 2016, 2017 and 2018, included in buildings, there is a carrying amount of RMB 36,870 thousand, RMB 29,409 thousand and RMB 21,424 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

As at the end of 31 December 2016, 2017 and 2018, included in buildings, there is a carrying amount of RMB 11,005 thousand, RMB 10,460 thousand and RMB 9,936 thousand respectively, for which the Company has yet to obtain the relevant land or building certificates.

19 INVESTMENT PROPERTIES

The Group

	Buildings
Cost	
As at 1 January 2016	141,522
Disposals	(4,203)
As at 31 December 2016	137,319
Accumulated amortization	
As at 1 January 2016	(45,864)
Charge for the year	(4,757)
Disposals	1,792
As at 31 December 2016	(48,829)
Carrying amount	
As at 31 December 2016	88,490

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 INVESTMENT PROPERTIES (Continued)

The Group (Continued)

	Buildings
Cost	
As at 1 January 2017	137,319
Additions	4,115
Disposals	(3,594)
As at 31 December 2017	137,840
Accumulated amortization	
As at 1 January 2017	(48,829)
Charge for the year	(5,441)
Disposals	1,555
As at 31 December 2017	(52,715)
Carrying amount	
As at 31 December 2017	85,125

	Buildings
Cost	
As at 1 January 2018	137,840
Additions	10,694
Disposals	(34,334)
As at 31 December 2018	114,200
Accumulated amortization	
As at 1 January 2018	(52,715)
Charge for the year	(5,095)
Transfer for the year	(5,868)
Disposals	16,161
As at 31 December 2018	(47,517)
Carrying amount	
As at 31 December 2018	66,683

The Company

	Buildings
Cost	
As at 1 January 2016	28,643
Additions	412,155
As at 31 December 2016	440,798
Accumulated amortization	
As at 1 January 2016	(4,419)
Charge for the year	(14,752)
Transfer during the year	(62,739)
As at 31 December 2016	(81,910)
Carrying amount	
As at 31 December 2016	358,888

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 INVESTMENT PROPERTIES (Continued)

The Company (Continued)

	Buildings
Cost	
As at 1 January 2017	440,798
Disposals	(65,226)
As at 31 December 2017	375,572
Accumulated amortization	
As at 1 January 2017	(81,910)
Charge for the year	(12,570)
Disposals	12,111
As at 31 December 2017	(82,369)
Carrying amount	
As at 31 December 2017	293,203

	Buildings
Cost	
As at 1 January 2018	375,572
As at 31 December 2018	375,572
Accumulated amortization	
As at 1 January 2018	(82,369)
Charge for the year	(12,570)
As at 31 December 2018	(94,939)
Carrying amount	
As at 31 December 2018	280,633

20 OTHER INTANGIBLE ASSETS

The Group

	Software	Others[1]	Total
Cost			
As at 1 January 2016	252,625	321,723	574,348
Additions	48,416	7,030	55,446
As at 31 December 2016	301,041	328,753	629,794
Accumulated amortization			
As at 1 January 2016	(181,637)	(278,736)	(460,373)
Charge for the year	(42,512)	(9,025)	(51,537)
As at 31 December 2016	(224,149)	(287,761)	(511,910)
Impairment			
As at 1 January 2016	–	(676)	(676)
As at 31 December 2016	–	(676)	(676)
Carrying amount			
As at 31 December 2016	76,892	40,316	117,208

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 OTHER INTANGIBLE ASSETS (Continued)

The Group (Continued)

	Software	Others[1]	Total
Cost			
As at 1 January 2017	301,041	328,753	629,794
Additions	80,817	1,024	81,841
Disposals	–	(266)	(266)
As at 31 December 2017	381,858	329,511	711,369
Accumulated amortization			
As at 1 January 2017	(224,149)	(287,761)	(511,910)
Charge for the year	(47,617)	(9,177)	(56,794)
Disposals	–	18	18
As at 31 December 2017	(271,766)	(296,920)	(568,686)
Impairment			
As at 1 January 2017	–	(676)	(676)
As at 31 December 2017	–	(676)	(676)
Carrying amount			
As at 31 December 2017	110,092	31,915	142,007

	Software	Others[1]	Total
Cost			
As at 1 January 2018	381,858	329,511	711,369
Additions	73,922	586	74,508
Disposals	(767)	–	(767)
As at 31 December 2018	455,013	330,097	785,110
Accumulated amortization			
As at 1 January 2018	(271,766)	(296,920)	(568,686)
Charge for the year	(59,512)	(7,641)	(67,153)
Disposals	154	–	154
As at 31 December 2018	(331,124)	(304,561)	(635,685)
Impairment			
As at 1 January 2018	–	(676)	(676)
As at 31 December 2018	–	(676)	(676)
Carrying amount			
As at 31 December 2018	123,889	24,860	148,749

(1) The carrying amount of others mainly represent trading seats rights and premise and land use rights. Trading seats rights have indefinite useful life and are not amortized, and premise and land use rights are amortized over 10-40 years.

The respective recoverable amounts of the CGU mainly relating to securities brokerage business whereby these trading seats rights are allocated to, using a value in use calculation, exceed the carrying amounts. The key assumptions are pre-tax discount rate of 10.0% and budgeted EBITDA growth rate of -3.4% estimated based on the past performance and management's expectations for the market development. Accordingly, management determined that there was no impairment of the trading seats rights as at 31 December 2016, 2017 and 2018. The estimated recoverable amount of the CGU exceeded its carrying amount by approximately RMB4.4 billion, RMB3.9 billion and RMB3.8 billion as at 31 December 2016, 2017 and 2018 based on value-in-use calculation performed by management. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 OTHER INTANGIBLE ASSETS (Continued)

The Company

	Software
Cost	
As at 1 January 2016	50
Additions	142
As at 31 December 2016	192
Accumulated amortization	
As at 1 January 2016	(1)
Charge for the year	(41)
As at 31 December 2016	(42)
Carrying amount	
As at 31 December 2016	150

	Software
Cost	
As at 1 January 2017	192
Additions	612
As at 31 December 2017	804
Accumulated amortization	
As at 1 January 2017	(42)
Charge for the year	(104)
As at 31 December 2017	(146)
Carrying amount	
As at 31 December 2017	658

	Software
Cost	
As at 1 January 2018	804
Additions	522
As at 31 December 2018	1,326
Accumulated amortization	
As at 1 January 2018	(146)
Charge for the year	(310)
As at 31 December 2018	(456)
Carrying amount	
As at 31 December 2018	870

21 INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 December		
	2016	2017	2018
Unlisted shares, carried at cost	40,413,676	40,863,676	51,963,676
Less: Impairment losses	–	–	–
Total	40,413,676	40,863,676	51,963,676

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activities	Auditor[2] and GAAP As at 31 December 2016	2017	2018
		(in thousands)							
Shenwan Hongyuan Securities Co., Ltd.* 申萬宏源證券有限公司	PRC 16 January 2015	RMB 43,000,000	100%	100%	100%	Securities brokerage and investment advisory, margin trading and securities lending, proprietary trading, securities asset management and others	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Shenwan Hongyuan Securities (Western) Co., Ltd.* 申萬宏源西部證券有限公司	PRC 20 January 2015	RMB 4,700,000	100%	100%	100%	Securities brokerage and margin financing	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Shenwan Hongyuan Financing Services Co., Ltd.* 申萬宏源證券承銷保薦有限責任公司	PRC 20 January 2015	RMB 1,000,000	100%	100%	100%	Securities underwriting and sponsoring business	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activities	Auditor[2] and GAAP As at 31 December 2016	2017	2018
		(in thousands)							
Shenwan Hongyuan (International) Holdings Limited 申萬宏源 (國際) 集團有限公司	Hong Kong 29 October 1992	HKD 2,253,399	100%	100%	100%	Investment holding	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS
Shenwan Hongyuan (H.K.) Limited 申萬宏源 (香港) 有限公司	Hong Kong 18 August 1972	HKD 1,200,457	31.17%[3]	31.17%[3]	31.17%[3]	Securities brokerage, corporate finance, asset management, financing and loan investment and other businesses	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS
Shenyin & Wanguo Investment Co., Ltd.* 申銀萬國投資有限公司	PRC 09 April 2009	RMB 500,000	100%	100%	100%	Investment advisory and wealth management	SCPA PRC GAAP	SCPA PRC GAAP	SCPA PRC GAAP
SWS Research Co., Ltd.* 上海申銀萬國證券研究所有限公司	PRC 16 October 1992	RMB 20,000	90%	90%	90%	Investment research	SCPA PRC GAAP	SCPA PRC GAAP	SCPA PRC GAAP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activities	Auditor[2] and GAAP As at 31 December 2016	2017	2018
		(in thousands)							
Shenyin & Wanguo Alternative Investment Co., Ltd.* 申銀萬國創新證券投資有限公司	PRC 29 May 2013	RMB 1,000,000	100%	100%	100%	Investment management and investment advisory services	SCPA PRC GAAP	SCPA PRC GAAP	SCPA PRC GAAP
SWS MU Fund Management Co., Ltd.* 申萬菱信基金管理有限公司	PRC 15 January 2004	RMB 150,000	67%	67%	67%	Fund management	PwC PRC PRC GAAP	PwC PRC PRC GAAP	PwC PRC PRC GAAP
Shenwan Hongyuan Investment Co., LTD.* 申萬宏源投資有限公司	PRC 21 January 2015	RMB –	100%	100%	100%	Investment management	N/A	N/A	N/A
Shenyin & Wanguo Futures Company Limited.* 申銀萬國期貨有限公司	PRC 07 January 1993	RMB 1,119,371	96.21%	97.25%	97.25%	Futures brokerage	SCPA PRC GAAP	SCPA PRC GAAP	SCPA PRC GAAP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activities	Auditor[2] and GAAP As at 31 December 2016	2017	2018
		(in thousands)							
Shenwan Hongyuan Investment Management Co., Ltd.* 申萬宏源產業投資管理有限責任公司	PRC 21 January 2015	RMB 176,500	100%	100%	100%	Investment advisory	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Ningxia Shenhong Modern Agriculture Industry Fund Management Co., Ltd.* 寧夏申宏現代農業產業基金管理有限公司	PRC 14 July 2016	RMB 2,500	51%	51%	51%	Investment management and corporate finance advisory	N/A	JONTEN CPA PRC GAAP	JONTEN CPA PRC GAAP
Hongyuan Futures Co., Ltd.* 宏源期貨有限公司	PRC 02 May 1995	RMB 1,000,000	100%	100%	100%	Futures brokerage	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Hongyuan Hengli (Shanghai) Co., Ltd.* 宏源恒利 (上海) 實業有限公司	PRC 18 June 2013	RMB 400,000	100%	100%	100%	Risk management service	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held			Principal activities	Auditor[2] and GAAP		
			As at 31 December				As at 31 December		
			2016	2017	2018		2016	2017	2018
		(in thousands)							
Hongyuan Huizhi Investment Co., Ltd.* 宏源匯智投資有限公司	PRC 27 March 2012	RMB 2,000,000	100%	100%	100%	Investment management	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Hongyuan Huifu Venture Investment Co., Ltd.* 宏源匯富創業投資有限公司 .	PRC 19 March 2010	RMB 500,000	100%	100%	100%	Venture capital	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Hongyuan Cycle Energy Investment management (Beijing) Co., Ltd.* 宏源循環能源投資管理 (北京) 有限公司	PRC 01 July 2013	RMB 10,000	60%	60%	60%	Investment management	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP
Beijing Hongtong Investment Management Co., Ltd.* 北京宏通投資管理有限公司 .	PRC 15 August 2017	RMB 10,000	–	51%	51%	Investment management	N/A	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activities	Auditor[2] and GAAP As at 31 December 2016	2017	2018
		(in thousands)							
Hunan Xianghui Private Equity Fund Management Co., Ltd.* 湖南湘匯私募股權基金管理有限公司	PRC 07 December 2017	RMB 12,000	-	51%	51%	Investment management	NA	NA	NA
Hunan Development Shenhong Private Equity Fund Management Co., Ltd.* 湖南發展申宏私募股權基金管理有限公司	PRC 24 April 2018	RMB 15,000	-	-	51%	Investment management	N/A	N/A	KPMG PRC PRC GAAP
Sichuan Shenwan Hongyuan Changhong Equity Investment Management Co., Ltd.* 四川申萬宏源長虹股權投資管理有限公司	PRC 19 January 2016	RMB 20,000	60%	60%	60%	Investment management	APAGCPA PRC GAAP	APAGCPA PRC GAAP	APAGCPA PRC GAAP

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activities	Auditor[2] and GAAP As at 31 December 2016	2017	2018
		(in thousands)							
Shenwan Hongyuan Development Chengdu Equity Investment Management Co., Ltd.* 申萬宏源發展成都股權投資管理有限公司	PRC 13 December 2016	RMB 30,000	51%	51%	51%	Investment management	APAGCPA PRC GAAP	APAGCPA PRC GAAP	APAGCPA PRC GAAP
Shenyin & Wanguo Jiaotou Integration of Industry (Shanghai) Investment Management Co., Ltd.* 申銀萬國交投產融 (上海) 投資管理有限公司	PRC 25 July 2014	RMB 10,000	51%	51%	51%	Investment management	APAGCPA PRC GAAP	APAGCPA PRC GAAP	APAGCPA PRC GAAP

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

The Group acts as principal of several structured entities during the Relevant Periods, according to relevant accounting policies of the Group, these structured entities were included in the Historical Financial Information. More detailed information of consolidated structured entities is disclosed in Note 54.

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(1) These subsidiaries are directly held by the Company.

(2) Auditors of the respective subsidiaries of the Group are as follows:

- KPMG PRC represents KPMG Huazhen LLP, a firm of certified public accountants registered in the PRC;
- KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong;
- PwC PRC represents PwC Zhong Tian LLP, a firm of certified public accountants registered in the PRC;
- SCPA represents SCPA LLP, a firm of certified public accountants registered in the PRC;
- JONTENCPA represents Jonten Certified Public Accountants LLP, a firm of certified public accountants registered in the PRC;
- APAGCPA represents Asia Pacific (Group) CPAs (special general partnership), a firm of certified public accountants registered in the PRC;

(3) During the Relevant Periods, Shenwan Hongyuan Holdings (B.V.I.) Limited ("SWHYHBVI") directly owns 50.56% of the interests of Shenwan Hongyuan (H.K.) Limited. SWHYHBVI is held directly as to 60.82% by Venture-Some Investments Limited ("VSI"). VSI is wholly-owned by Shenwan Hongyuan (International) Holdings Limited which is in turn a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd. Shenwan Hongyuan Securities Co., Ltd is wholly-owned by Shenwan Hongyuan Group Co., Ltd. In addition, Shenwan Hongyuan (International) Holdings Limited also holds directly 0.42% of the interests of Shenwan Hongyuan (H.K.) Limited. Therefore Shenwan Hongyuan (H.K.) Limited is controlled by the Group.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

The following table lists out the information related to major subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

Shenwan Hongyuan (H.K.) Limited

	As at 31 December		
	2016	2017	2018
NCI percentage	68.83%	68.83%	68.83%
Assets	6,664,968	6,425,058	6,890,135
Liabilities	(4,793,870)	(4,616,547)	(4,955,389)
Net assets	1,871,098	1,808,511	1,934,746
Carrying amount of NCI	1,287,876	1,244,798	1,331,686
Revenue	356,394	473,040	438,704
Profit for the year	70,408	90,170	81,242
Other comprehensive income	(446)	453	–
Total comprehensive income	69,962	90,623	81,242
Total comprehensive income attributable to NCI	48,155	62,375	55,919
Dividend paid to NCI	42,205	18,992	27,759
Cash flows generated from/(used in) operating activities	335,801	(458,862)	498,401

SWS MU Fund Management Co., Ltd.

	As at 31 December		
	2016	2017	2018
NCI percentage	33.00%	33.00%	33.00%
Assets	1,327,736	1,402,976	946,391
Liabilities	(302,158)	(214,501)	(129,655)
Net assets	1,025,578	1,188,475	816,736
Carrying amount of NCI	338,441	392,197	269,523
Revenue	558,381	532,018	355,435
Profit for the year	166,163	162,675	79,113
Other comprehensive income	(2,263)	221	–
Total comprehensive income	163,900	162,896	79,113
Total comprehensive income attributable to NCI	54,087	53,756	26,107
Dividend paid to NCI	33,000	–	148,500
Cash flows (used in)/generated from operating activities	(14,207)	3,879	(30,776)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES

The Group

	As at 31 December		
	2016	2017	2018
Share of net assets	973,572	1,870,655	2,399,055

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

The Company

	As at 31 December		
	2016	2017	2018
Share of net assets	–	698,456	721,638

The following list contains the particulars of material associates and joint ventures, all of which are unlisted enterprises whose quoted market price is not available:

Name of associates and joint ventures	Place of incorporation	Paid-up capital	Effective equity interest held As at 31 December 2016	2017	2018	Principal activity
		(in thousands)				
Fullgoal Fund Management Co., Ltd.* 富國基金管理有限公司	Shanghai	RMB 520,000	27.775%	27.775%	27.775%	Fund management
Beijing Urban Construction (Wuhu) Equity Investment management Co., Ltd.* 北京城建 (蕪湖) 股權投資管理有限公司	Wuhu	RMB 100,000	30.00%	30.00%	30.00%	Investment management
Xinjiang Tianshan Industrial Investment Fund Management Co., Ltd.* 新疆天山產業投資基金管理有限公司	Urumchi	RMB 50,000	30.00%	30.00%	30.00%	Investment management
Horgos Tianshan No. 1 Industrial Investment Fund Limited Partnership* 霍爾果斯天山一號產業投資基金有限合夥企業	Horgos	RMB 1,510,000	–	33.11%	33.11%	Equity management
Xinjiang Financial Investment Asset Management Co, Ltd.* (1) 新疆金投資產管理股份有限公司	Urumchi	RMB 1,000,000	–	18.00%	18.00%	Assets management
Shenwan & Hongyuan Asset Management (Shanghai) Co., Ltd.* 申萬宏源資本管理 (上海) 有限公司	Shanghai	RMB 10,000	–	40.00%	40.00%	Assets management
Henan Guochuang Mixed Reform Fund Management Co., Ltd.* 河南省國創混改基金管理有限公司	Zhengzhou	RMB 10,000	–	30.00%	30.00%	Investment management
Jiaxing Mingmao Investment Partnership (Limited Partnership) * 嘉興明茂投資合夥企業 (有限合夥)	Jiaxing	RMB 721,000	–	–	49.90%	Equity investment
Shenzhen Shenwan Jiaotou West Growth No. 1 Equity Investment Fund Partnership (Limited Partnership)* (1) 深圳申萬交投西部成長一號股權投資基金合夥企業 (有限合夥)	Shenzhen	RMB 88,000	17.54%	17.54%	17.54%	Equity management

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

Name of associates and joint ventures	Place of incorporation	Paid-up capital	Effective equity interest held			Principal activity
			As at 31 December			
			2016	2017	2018	
		(in thousands)				
Shanghai Shenwan & Hongyuan Jiashi Equity Investment Partnership (Limited partnership)* 上海申萬宏源嘉實股權投資合夥企業(有限合夥)	Shanghai	RMB 85,000	31.00%	31.00%	31.00%	Equity management
Xiamen Xiangyu Hongding Modern Logistics Partnership (Limited Partnership)* 廈門市象嶼泓鼎現代物流合夥企業(有限合夥)	Xiamen	RMB 40,000	50.00%	50.00%	50.00%	Equity management
Sichuan Shenwan & Hongyuan Changhong Equity Investment Fund Partnership (Limited Partnership)* (2) 四川申萬宏源長虹股權投資基金合夥企業(有限合夥)	Mianyang	RMB 310,000	51.61%	51.61%	51.61%	Equity management
Sichuan Development Shenwan & Hongyuan Equity Investment Fund Partnership (Limited Partnership)* 四川發展申萬宏源股權投資基金合夥企業(有限合夥)	Chengdu	RMB 300,000	–	34.00%	34.00%	Equity management
Liaoning Guoxin Industrial Investment Fund Management Co., Ltd.* 遼寧國鑫產業投資基金管理有限公司	Shenyang	RMB 10,000	–	–	26.00%	Investment management

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

(1) The Group's shareholding of this investee is lower than 20%, however the Group has significant influence or joint control over this investee as a result of relevant arrangements stipulated in the Articles of Association, the Limited Partnership Agreement and other corporate governance documents.

(2) The Group's shareholding of this investee is higher than 50%, however the Group only has significant influence or joint control over this investee as a result of relevant arrangements stipulated in the Limited Partnership Agreement and other corporate governance documents.

All of the above associates and joint ventures are accounted for using equity method in the Historical Financial Information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

Summarised financial information of the Group's material associates and joint ventures, and reconciliation to the carrying amounts in the Historical Financial Information, are disclosed below:

Fullgoal Fund Management Co., Ltd.

	As at 31 December		
	2016	2017	2018
Gross amounts of the associate:			
Assets	4,289,660	4,227,516	4,701,753
Liabilities	(1,835,146)	(1,383,135)	(1,308,774)
Net assets	2,454,514	2,844,381	3,392,979
Revenue	2,469,481	2,367,618	2,381,397
Profit for the year	751,903	726,063	703,983
Other comprehensive income	(43,980)	(6,196)	(5,385)
Other adjustments	–	(6,743)	8,036
Total comprehensive income	707,923	713,124	706,634
Dividend received from the associate	214,979	91,658	41,663
Reconciled to the Group's interest in the associate:			
Net assets	2,454,514	2,844,381	3,392,979
The Group's effective interest	27.775%	27.775%	27.775%
The Group's share of net assets of the associate	681,741	790,027	942,400
Other adjustments	–	(1,873)	359
Carrying amount in the Historical Financial Information	681,741	788,154	942,759

Horgos Tianshan No. 1 Industrial Investment Fund Limited Partnership

	As at 31 December		
	2016	2017	2018
Gross amounts of the associate:			
Assets	–	2,956,245	2,550,397
Liabilities	–	(1,418,947)	(1,396,214)
Net assets	–	1,537,298	1,154,183
Revenue	–	–	–
Loss for the year	–	(2,808)	(26,448)
Other comprehensive income	–	30,543	–
Other adjustments	–	28,006	60,495
Total comprehensive income	–	55,741	34,047
Dividend received from the associate	–	–	–
Reconciled to the Group's interest in the associate:			
Net assets	–	1,537,298	1,154,183
The Group's effective interest	–	33.11%	33.11%
The Group's share of net assets of the associate	–	508,999	382,150
Other adjustments	–	9,457	147,579
Carrying amount in the Historical Financial Information	–	518,456	529,729

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

Aggregated information of associates and joint ventures that are not individually material:

	As at 31 December		
	2016	2017	2018
Aggregate carrying amount of individually immaterial associates and joint ventures in the Historical Financial Information	291,831	564,045	926,567
Aggregate amounts of the Group's share of those associates and joint ventures' profits	2,920	4,345	3,301
Other comprehensive income	1,480	(2,601)	1,121
Total comprehensive income	4,400	1,744	4,422

23 FINANCIAL ASSETS MEASURED AT AMORTIZED COST

The Group

(a) Analysed by nature:

Non-current

	As at 31 December
	2018
Wealth management products and others	4,995,465
Investments classified as receivables	900,126
Less: Impairment losses	(184,752)
Total	5,710,839

Current

	As at 31 December
	2018
Wealth management products and others	4,453,860
Less: Impairment losses	(2,555)
Total	4,451,305

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December
	2018
At the beginning of the year	–
Impact on initial adoption of IFRS 9 on 1 January 2018	164,141
Charge for the year	23,166
At the end of the year	187,307

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 FINANCIAL ASSETS MEASURED AT AMORTIZED COST (Continued)

The Company

(a) Analysed by nature:

Non-current

	As at 31 December 2018
Wealth management products and others	2,760,000
Less: Impairment losses	(2,301)
Total	2,757,699

Current

	As at 31 December 2018
Wealth management products and others	2,933,834
Less: Impairment losses	(1,517)
Total	2,932,317

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December 2018
At the beginning of the year	–
Impact on initial adoption of IFRS 9 on 1 January 2018	3,441
Charge for the year	377
At the end of the year	3,818

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group

Non-current

	As at 31 December 2018
Designated at FVOCI	
Equity securities not held for trading[(1)]	9,115,967
Analysed as:	
Listed outside Hong Kong	2,614,446
Unlisted	6,501,521
Total	9,115,967

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

The Group (Continued)

Current

	As at 31 December 2018
Debt securities	21,996,643
Analysed as:	
Listed outside Hong Kong	5,125,808
Unlisted	16,870,835
Total	21,996,643

(1) As at 31 December 2018, the above non-current financial assets at fair value through other comprehensive income include the Group's contributed fund, with various PRC securities firms, to designated accounts managed by China Securities Finance Corporation Limited (CSF). Risk and reward arising from the investment shall be shared by the relevant securities firms according to the proportion of their respective contribution. As at 31 December 2018, the fair value of the Group's contribution recognized by the Group was RMB 6,242 million, based on the investment account statement provided by CSF. The Group designated the specific investment at financial assets at fair value through other comprehensive income (non-recycling) as the investment is not held for trading in 2018.

As at 31 December 2018, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through other comprehensive income with total fair value of RMB 137,061 thousand to external clients. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(10). The fair value of collaterals for the securities lending business is analysed in Note 33(c) together with the fair value of collaterals of margin financing business.

As at 31 December 2018, the Group has pledged financial assets at fair value through other comprehensive income with a total fair value of RMB 1,525,408 thousand to CSF for the purpose of placement. The fair values of these securities have taken into account the relevant features including the restrictions.

As at 31 December 2018, the Group has pledged financial assets at fair value through other comprehensive income with a total fair value of RMB 15,402,719 thousand for the purpose of repurchase agreement business and bond lending business.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

Non-current

	As at 31 December	
	2016	2017
Equity securities	4,021,537	3,972,977
Funds	145,539	–
Wealth management products and others	15,340,921	14,490,633
Less: Impairment losses	(449,337)	(598,590)
Total	19,058,660	17,865,020
Analysed as:		
Listed outside Hong Kong	3,432,339	3,215,375
Unlisted	15,626,321	14,649,645
Total	19,058,660	17,865,020

Current

	As at 31 December	
	2016	2017
Equity securities	2,925,711	1,217,311
Debt securities	9,284,682	19,205,697
Funds	377,235	208,460
Wealth management products	9,204,403	8,795,872
Less: Impairment losses	(255,842)	(304,637)
Total	21,536,189	29,122,703
Analysed as:		
Listed outside Hong Kong	7,317,458	9,231,907
Unlisted	14,218,731	19,890,796
Total	21,536,189	29,122,703

The Company

Non-current

	As at 31 December	
	2016	2017
Equity securities	11,599	11,599
Wealth management products and others	2,400,250	4,001,065
Less: Impairment losses	(7,134)	(7,134)
Total	2,404,715	4,005,530
Analysed as:		
Unlisted	2,404,715	4,005,530

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The Company (Continued)

Current

	As at 31 December	
	2016	2017
Debt securities	25,001	55,003
Funds	200,000	–
Wealth management products	2,324,696	3,175,723
Less: Impairment losses	–	–
Total	2,549,697	3,230,726
Analysed as:		
Listed outside Hong Kong	25,001	55,003
Unlisted	2,524,696	3,175,723
Total	2,549,697	3,230,726

As at 31 December 2016 and 2017, the above non-current available-for-sale financial assets include the Company's contributed funds, with various PRC securities firms, to designated accounts managed by CSF. Risk and reward arising from the investment shall be shared by the relevant securities firms according to the proportion of their respective contribution. As at 31 December 2016 and 2017, the fair value of the Group's contribution recognized by the Group was RMB 8,025 million and RMB 7,090 million respectively based on the investment account statement provided by CSF.

In accordance with the accounting policies described in Note 2(10), impairment shall be recognized by comprehensive analysis of all relevant factors including the nature and purpose of the investments, decision making processes and management mode, the financial positions and business prospects (e.g. sector outlook, price volatility and etc.), the restriction on disposal and etc. The Group takes into consideration of all relevant factors through the whole investment period when assessing whether there is objective evidence that the available-for-sale equity investment is under a significant or prolonged decline in the fair value, and recognized impairment provision of RMB 568,264 thousand and RMB 679,487 thousand as at 31 December 2016 and 31 December 2017 respectively.

As at 31 December 2016 and 2017, there was no fund investments with lock-up period included in the available-for-sale financial assets held by the Group.

As at 31 December 2016 and 2017, the equity securities in the available-for-sale financial assets with lock-up periods held by the Group were RMB 771,706 thousand and RMB 204,156 thousand, respectively.

As at 31 December 2016 and 2017, the Group invested in the asset management schemes initiated by the Group with RMB 41,494 thousand and RMB 1,454 thousand respectively, and will not redeem during the asset management schemes duration.

As at 31 December 2016, 2017, the Group has pledged available-for-sale financial assets with a total fair value of RMB 675,747 thousand and RMB 1,421,460 thousand to CSF for the purpose of placement.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

As at 31 December 2016, 2017, the Group has pledged available-for-sale financial assets with a total fair value of RMB 5,191,633 thousand and RMB 11,686,352 thousand for the purpose of repurchase agreement business and bond lending business.

In the opinion of the directors of the Group, non-current available-for-sale financial assets are expected to be realised or restricted for sale beyond one year from the end of the Relevant Periods.

The fair value of the Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in 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's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at the end of the Relevant Periods.

As at 31 December 2016 and 2017, the Group entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale financial assets with a total fair value of RMB100,760 thousand and RMB75,655 thousand to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(10). The fair value of collaterals received in respect of the securities lending business is analysed in Note 33(c) together with the fair value of collaterals of margin financing business.

26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by collateral type:

The Group

Non-current

	As at 31 December		
	2016	2017	2018
Equity securities	3,391,600	10,535,080	21,089,160
Others	–	–	30,000
Less: Impairment losses	(16,958)	(52,475)	(126,358)
Total	3,374,642	10,482,605	20,992,802

Current

	As at 31 December		
	2016	2017	2018
Debt securities	10,894,009	11,328,078	22,923,054
Equity securities	3,278,296	22,174,662	22,664,770
Others	200,000	178,100	–
Less: Impairment losses	(15,006)	(110,119)	(500,735)
Total	14,357,299	33,570,721	45,087,089

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(b) Analysed by market:

The Group

Non-Current

	As at 31 December		
	2016	2017	2018
Shanghai Stock Exchange	1,306,600	2,995,960	8,282,873
Shenzhen Stock Exchange	2,085,000	7,539,120	12,806,287
Others	–	–	30,000
Less: Impairment losses	(16,958)	(52,475)	(126,358)
Total	3,374,642	10,482,605	20,992,802

Current

	As at 31 December		
	2016	2017	2018
Inter-bank market	2,290,591	4,746,500	6,007,812
Shanghai Stock Exchange	8,622,254	11,100,064	21,942,722
Shenzhen Stock Exchange	3,259,460	17,656,176	17,637,290
Others	200,000	178,100	–
Less: Impairment losses	(15,006)	(110,119)	(500,735)
Total	14,357,299	33,570,721	45,087,089

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

Non-Current

	As at 31 December
	2018
Equity instrument	
—Equity securities	405,265
—Fund	14,644
Hybrid instrument	300,000
Wealth management products and others	2,699,806
Total	3,419,715
Analysed as:	
Listed outside Hong Kong	66,387
Unlisted	3,353,328
Total	3,419,715

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Group (Continued)

Current

	As at 31 December 2018
Debt securities	60,116,477
Equity instrument	
—Funds	16,179,493
—Equity securities	1,512,060
Hybrid instrument	1,861,120
Wealth management products and others	10,218,731
Total	89,887,881
Analysed as:	
Listed outside Hong Kong	27,730,693
Listed in Hong Kong	10,587
Unlisted	62,146,601
Total	89,887,881

The Company

Non-Current

	As at 31 December 2018
Equity instrument	
—Equity securities	4,464
Wealth management products and others	1,687,250
Total	1,691,714
Analysed as:	
Unlisted	1,691,714

The Company

Current

	As at 31 December 2018
Equity instrument	
—Funds	303,741
Hybrid instrument	54,871
Wealth management products and others	2,386,141
Total	2,744,753
Analysed as:	
Listed outside Hong Kong	54,871
Unlisted	2,689,882
Total	2,744,753

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Group

Current

	As at 31 December	
	2016	2017
Held for trading:		
—Debt securities	25,032,634	37,918,541
—Funds	6,549,167	7,028,188
—Equity securities	2,656,147	2,474,449
—Hybrid instrument	38,359	140,221
—Wealth management products and others	–	123,200
Designated at fair value through profit or loss:		
—Hybrid instrument	490,785	933,996
—Wealth management products and others	169,191	743,924
Total	34,936,283	49,362,519
Analysed as:		
Held for trading:		
—Listed outside Hong Kong	16,909,645	20,328,034
—Listed inside Hong Kong	2,169	–
—Unlisted	17,364,493	27,356,566
Designated at fair value through profit or loss:		
—Listed outside Hong Kong	490,785	831,585
—Unlisted	169,191	846,334
Total	34,936,283	49,362,519

As at 31 December 2016, 2017 and 2018, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with total fair value of nil, RMB23,818 thousand and RMB326,934 thousand to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(12). The fair value of collaterals for the securities lending business is analyzed in Note 33(c) together with the fair value of collaterals of margin financing business.

As at 31 December 2016, 2017 and 2018, the Group has pledged financial assets at fair value through profit or loss with a total fair value of RMB10,022,371 thousand, RMB30,662,913 thousand and RMB40,516,687 thousand for the purpose of repurchase agreement business and bond lending business.

As at 31 December 2016, 2017 and 2018, the equity securities in the financial assets at fair value through profit or loss with lock-up periods held by the Group were nil, nil and RMB132,773 thousand, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

28 REFUNDABLE DEPOSITS

The Group

	As at 31 December		
	2016	2017	2018
Deposits with stock exchanges and clearing house			
—China Securities Depository and Clearing Corporation Limited	515,859	471,978	399,529
—Hong Kong Securities Clearing Company Limited	11,767	10,179	8,085
—The Stock Exchange of Hong Kong Limited	1,311	741	438
	528,937	482,898	408,052
Deposits with futures and commodity exchanges			
—China Financial Futures Exchange	2,222,739	1,446,473	1,346,104
—Shanghai Futures Exchange	1,215,337	1,474,023	1,136,555
—Dalian Commodity Exchange	1,219,627	1,370,666	1,107,956
—Zhengzhou Commodity Exchange	373,211	402,564	758,114
—Shanghai International Energy Exchange	–	–	139,123
—Hong Kong Futures Exchange	3,186	3,215	1,314
	5,034,100	4,696,941	4,489,166
Deposits with other institutions			
—China Securities Finance Corporation Limited	80,511	156,006	572,899
—Shanghai Clearing House	111,399	118,791	342,571
—The SEHK Options Clearing House Limited	5,385	4,219	2,487
—Monetary Authority of Singapore	480	488	502
—Other institutions	50	–	14,935
	197,825	279,504	933,394
Total	5,760,862	5,459,343	5,830,612

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEFERRED TAXATION

(a) Deferred tax assets/(liabilities) recognized

The Group

The components of deferred tax assets/(liabilities) recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Changes in fair value of financial assets at fair value through other comprehensive income	Business combination	Others	Total
As at 1 January 2016	152,816	484,953	(230,413)	3,136	(160,511)	–	(570,802)	7,048	(313,773)
Recognized in profit or loss	(5,140)	120,015	238,172	18,431	–	–	358,272	24,267	754,017
Recognized in reserves	–	–	–	–	385,264	–	–	–	385,264
As at 31 December 2016	147,676	604,968	7,759	21,567	224,753	–	(212,530)	31,315	825,508
As at 1 January 2017	147,676	604,968	7,759	21,567	224,753	–	(212,530)	31,315	825,508
Recognized in profit or loss	103,298	(184,362)	33,892	(8,717)	–	–	225,950	(9,472)	160,589
Recognized in reserves	–	–	–	–	(126,828)	–	–	–	(126,828)
As at 31 December 2017	250,974	420,606	41,651	12,850	97,925	–	13,420	21,843	859,269
Impact on initial application of IFRS 9	(128,379)	–	(3,666)	–	(97,925)	233,308	–	–	3,338
As at 1 January 2018	122,595	420,606	37,985	12,850	–	233,308	13,420	21,843	862,607
Recognized in profit or loss	144,581	(33,744)	(8,093)	44,991	–	20,562	225,372	18,158	411,827
Recognized in reserves	–	–	–	–	–	284,131	–	–	284,131
As at 31 December 2018	267,176	386,862	29,892	57,841	–	538,001	238,792	40,001	1,558,565

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEFERRED TAXATION (Continued)

(a) Deferred tax assets/(liabilities) recognized (Continued)

The Company

The components of deferred tax assets/(liabilities) recognized in the Company's statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of available-for-sale financial assets	Business combination	Others	Total
As at 1 January 2016	2,362	4,294	–	–	(1,034,387)	–	(1,027,731)
Recognized in profit or loss	–	330	–	–	358,272	–	358,602
Recognized in reserves	–	–	–	1,241	–	–	1,241
As at 31 December 2016	2,362	4,624	–	1,241	(676,115)	–	(667,888)
As at 1 January 2017	2,362	4,624	–	1,241	(676,115)	–	(667,888)
Recognized in profit or loss	(578)	(2,312)	–	–	225,950	(3,344)	219,716
Recognized in reserves	–	–	–	(2,719)	–	–	(2,719)
As at 31 December 2017	1,784	2,312	–	(1,478)	(450,165)	(3,344)	(450,891)
Impact on initial application of IFRS9	(923)	–	305	1,478	–	–	860
As at 1 January 2018	861	2,312	305	–	(450,165)	(3,344)	(450,031)
Recognized in profit or loss	3,468	4,215	(16,290)	–	225,372	(1,724)	215,041
Recognized in reserves	–	–	–	–	–	–	–
As at 31 December 2018	4,329	6,527	(15,985)	–	(224,793)	(5,068)	(234,990)

(b) Reconciliation to the consolidated statements of financial position and the statements of financial position

The Group

	As at 31 December		
	2016	2017	2018
Net deferred tax assets recognized in the consolidated statements of financial position	1,580,342	1,310,456	1,800,675
Net deferred tax liabilities recognized in the consolidated statements of financial position	(754,834)	(451,187)	(242,110)
Total	825,508	859,269	1,558,565

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEFERRED TAXATION (Continued)

(b) Reconciliation to the consolidated statements of financial position and the statements of financial position (Continued)

The Company

	As at 31 December		
	2016	2017	2018
Net deferred tax liabilities recognized in the statements of financial position	(667,888)	(450,891)	(234,990)

(c) Recognized in other comprehensive income

The Group

	As at 31 December 2016		
	Before tax	Tax benefit	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	(1,021,792)	256,294	(765,498)
—Reclassified to profit or loss	(516,976)	128,970	(388,006)
Share of other comprehensive income of associates	(10,735)	–	(10,735)
Exchange differences on translation of financial statements in foreign currencies	140,649	–	140,649
Total	(1,408,854)	385,264	(1,023,590)

	As at 31 December 2017		
	Before tax	Tax (expense)/ benefit	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	886,605	(224,690)	661,915
—Reclassified to profit or loss	(391,999)	97,862	(294,137)
Share of other comprehensive income of associates	(4,901)	–	(4,901)
Exchange differences on translation of financial statements in foreign currencies	(146,299)	–	(146,299)
Total	343,406	(126,828)	216,578

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEFERRED TAXATION (Continued)

(c) Recognized in other comprehensive income (Continued)

The Group (Continued)

	As at 31 December 2018		
	Before tax	Tax (expense)/ benefit	Net of tax
Financial assets at fair value through other comprehensive income			
—Net changes in fair value	539,374	(134,758)	404,616
—Reclassified to profit or loss	(234,834)	58,709	(176,125)
Share of other comprehensive income of associates	367	–	367
Exchange differences on translation of financial statements in foreign currencies	115,256	–	115,256
Equity investment at fair value through other comprehensive income			
—Net changes in fair value	(1,440,720)	360,180	(1,080,540)
Total	(1,020,557)	284,131	(736,426)

The Company

	As at 31 December 2016		
	Before tax	Tax benefit	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	(4,963)	1,241	(3,722)
Total	(4,963)	1,241	(3,722)

	As at 31 December 2017		
	Before tax	Tax expense	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	11,205	(2,719)	8,486
Share of other comprehensive income of associates	(330)	–	(330)
Total	10,875	(2,719)	8,156

	As at 31 December 2018		
	Before tax	Tax expense	Net of tax
Financial assets at fair value through other comprehensive income			
—Net changes in fair value	–	–	–
Share of other comprehensive income of associates	–	–	–
Total	–	–	–

(d) Deferred tax assets not recognized

As at 31 December 2016, 2017 and 2018, in accordance with the accounting policy set out in Note 2(20)(ii), the Group has not recognized deferred tax assets in respect of cumulative tax losses, and provision for bad debts with timing difference amounting to RMB 62,954 thousand, RMB 54,000 thousand and RMB 63,374 thousand respectively, mainly as it is not probable that future

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEFERRED TAXATION (Continued)

(d) Deferred tax assets not recognized (Continued)

taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

30 OTHER NON-CURRENT ASSETS

Analysed by nature:

The Group

	As at 31 December		
	2016	2017	2018
Long-term deferred expenses(1)	120,300	120,121	111,086
Investments classified as receivables	500,000	900,000	–
Other	66,581	63,506	65,620
Total	686,881	1,083,627	176,706

The Company

	As at 31 December		
	2016	2017	2018
Long-term deferred expenses(1)	1,667	6,722	6,119

(1) The movements of long-term deferred expenses are as below:

The Group

	As at 31 December		
	2016	2017	2018
Balance at the beginning of the year	135,473	120,300	120,121
Additions	7,635	25,523	10,950
Transfer in from property and equipment	34,379	29,584	29,055
Amortization	(57,187)	(55,286)	(49,040)
Balance at the end of the year	120,300	120,121	111,086

The Company

	As at 31 December		
	2016	2017	2018
Balance at the beginning of the year	3,333	1,667	6,722
Additions	–	7,072	1,003
Amortization	(1,666)	(2,017)	(1,606)
Balance at the end of the year	1,667	6,722	6,119

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 ACCOUNTS RECEIVABLE

(a) Analysed by nature:

The Group

	As at 31 December		
	2016	2017	2018
Accounts receivable of:			
—Settlement	951,700	904,757	642,120
—Fee and commission	537,758	643,837	618,643
—Overdue	34,624	67,343	135,661
Less: Provision for impairment losses	(57,407)	(90,500)	(158,834)
Total	1,466,675	1,525,437	1,237,590

The Company

	As at 31 December		
	2016	2017	2018
Accounts receivable of:			
—Fee and commission	6,970	–	–
Less: Provision for impairment losses	–	–	–
Total	6,970	–	–

(b) Analysed by ageing:

The Group

As at the end of the Relevant Periods, the ageing analysis of accounts receivable, based on the trade date, is as follows:

	As at 31 December		
	2016	2017	2018
Within 1 year	1,410,932	1,425,070	1,101,611
1 to 2 years	47,691	80,739	109,292
2 to 3 years	6,371	14,661	16,835
Over 3 years	1,681	4,967	9,852
Total	1,466,675	1,525,437	1,237,590

The Company

	As at 31 December		
	2016	2017	2018
Within 1 year	6,970	–	–

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 ACCOUNTS RECEIVABLE (Continued)

(c) Analysis of the movement of provision for impairment losses:

The Group

	As at 31 December		
	2016	2017	2018
At the beginning of the year	43,650	57,407	90,500
Charge for the year	13,777	33,093	68,334
Reversal of impairment	(20)	–	–
At the end of the year	57,407	90,500	158,834

(d) Accounts receivable that is not impaired

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

32 OTHER RECEIVABLES AND PREPAYMENTS

(a) Analysed by nature:

The Group

	As at 31 December		
	2016	2017	2018
Interest receivable	2,157,948	2,759,988	2,841,105
Inventory	–	–	775,149
Receivables from commodity business customers	31,369	103,261	296,571
Receivables from asset management plans	–	–	228,862
Overdue and fully impaired receivables	186,152	183,139	183,197
Current tax assets	33,824	113,378	170,007
Prepayments[(1)]	120,748	125,931	134,553
Receivables from bond issuers	4,250	143,079	82,871
Deposits	45,206	146,007	73,559
Investments classified as receivables	220,000	500,000	–
Others[(1)]	99,857	71,617	47,752
Less: Provision for impairment losses	(201,535)	(196,632)	(264,831)
Total	2,697,819	3,949,768	4,568,795

(1) The balance of prepayments and others mainly represents receivables from sundry receivables and prepayments arising from the Group's daily business operation.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 OTHER RECEIVABLES AND PREPAYMENTS (Continued)

(a) Analysed by nature: (Continued)

The Company

	As at 31 December		
	2016	2017	2018
Other receivables	7,031,812	4,061,697	8,130,446
Interest receivable	18,498	89,350	66,062
Prepayments	8,111	11,624	16,040
Others	2,460	2,460	2,460
Less: Provision for impairment losses	–	–	(13,500)
Total	7,060,881	4,165,131	8,201,508

(b) Analysis of the movement of provision for impairment losses:

The Group

	As at 31 December		
	2016	2017	2018
At the beginning of the year	195,403	201,535	196,632
Charge for the year	6,132	–	68,193
Reversal of impairment	–	(4,671)	–
Amounts transferred	–	(232)	–
Recoveries of accounts receivable previously written-off	–	–	6
At the end of the year	201,535	196,632	264,831

The Company

	As at 31 December		
	2016	2017	2018
At the beginning of the year	–	–	–
Charge for the year	–	–	13,500
At the end of the year	–	–	13,500

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

33 MARGIN ACCOUNTS RECEIVABLE

(a) Analysed by nature:

The Group

	As at 31 December		
	2016	2017	2018
Individuals	53,200,781	53,953,310	38,298,871
Institutions	2,777,041	1,921,215	4,892,369
Less: Provision for impairment losses	(108,746)	(135,808)	(84,265)
Total	55,869,076	55,738,717	43,106,975

(b) Analysis of the movement of provision for impairment losses:

The Group

	As at 31 December		
	2016	2017	2018
At the beginning of the year	139,695	108,746	135,808
Charge for the year	–	27,062	–
Reversal of impairment	(30,949)	–	(51,512)
Amounts written off	–	–	(31)
At the end of the year	108,746	135,808	84,265

(c) The fair value of collaterals for margin financing and securities lending business is analysed as follows:

The Group

	As at 31 December		
	2016	2017	2018
Fair value of collaterals:			
—Stocks	157,463,324	152,298,606	116,050,302
—Cash	10,424,134	7,831,828	8,800,183
—Funds	148,294	397,061	1,555,229
—Bonds	2,906	30,359	23,102
Total	168,038,658	160,557,854	126,428,816

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DERIVATIVE FINANCIAL INSTRUMENTS

The Group

	As at 31 December 2016		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
—Treasury bond futures	2,253,543	–	(5,322)
—Interest rate swaps	49,480,000	–	(48,345)
Equity derivatives			
—Stock index futures	26,665	68	–
—Stock option	1,150	–	(25)
—OTC derivatives	2,891,667	5,707	(19,973)
Commodity derivatives			
—Precious metal futures	792,260	–	(51,711)
—Other commodity futures	252,332	–	(1,723)
Total	55,697,617	5,775	(127,099)
Less: Cash (received)/paid as settlement		(68)	107,101
Net position		5,707	(19,998)

	As at 31 December 2017		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
—Treasury bond futures	7,475,198	–	(22,976)
—Interest rate swaps	44,740,000	–	(37,598)
Equity derivatives			
—Stock index futures	565,558	2,671	(53)
—Structured notes	30,600	–	(8)
—Stock option	223,627	131	(3,395)
—OTC derivatives	3,038,015	6,579	(28,849)
Commodity derivatives			
—Precious metal futures	1,181,946	–	(12,388)
—Other Commodity futures	1,507,608	–	(2,210)
Total	58,762,552	9,381	(107,477)
Less: Cash (received)/paid as settlement		(2,671)	75,225
Net position		6,710	(32,252)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group (Continued)

	As at 31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
—Treasury bond futures	2,672,026	–	(22,380)
—Interest rate swaps	58,450,000	–	(214,330)
Equity derivatives			
—Stock index futures	508,409	8,948	–
—Structured notes	3,700	–	(10)
—Stock option	420,183	3,211	(5,466)
—OTC derivatives	20,078,855	450,704	(450,824)
Commodity derivatives			
—Precious metal futures	142,472	3,840	–
—Other commodity futures	2,595,107	36,766	(15,562)
Total	84,870,752	503,469	(708,572)
Less: Cash (received)/paid as settlement		(49,554)	252,272
Net position		453,915	(456,300)

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settled in Shanghai Clearing House, stock index futures, treasury bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds".

35 CLEARING SETTLEMENT FUNDS

The Group

	As at 31 December		
	2016	2017	2018
Deposits with			
—China Securities Depository and Clearing Corporation Limited	1,449,060	2,457,771	3,035,195
—China Financial Futures Exchange	175,606	696	–
—Shanghai Gold Exchange	81,652	131,852	17,789
—Other institutions	–	–	38,065
Total	1,706,318	2,590,319	3,091,049

36 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified its brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognized the corresponding accounts payable to the respective brokerage clients on the grounds that it is liable for any loss or

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 CASH HELD ON BEHALF OF BROKERAGE CLIENTS (Continued)

misappropriation of its brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

37 CASH AND BANK BALANCES

(a) Analysed by nature:

The Group

	As at 31 December		
	2016	2017	2018
Cash on hand	495	432	599
Bank balances	23,259,591	22,374,264	25,291,970
Less: Provision for Impairment losses	–	–	(6,155)
Total	23,260,086	22,374,696	25,286,414

The Company

	As at 31 December		
	2016	2017	2018
Cash on hand	–	–	37
Bank balances	1,408,426	97,211	159,133
Total	1,408,426	97,211	159,170

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December 2018
At the beginning of the year	–
Impact on initial adoption of IFRS 9 on 1 January 2018	8,043
Reversal of impairment	(1,888)
At the end of the year	6,155

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 CASH AND CASH EQUIVALENTS

The Group

	As at 31 December		
	2016	2017	2018
Cash on hand	495	432	599
Bank balances	23,259,591	22,374,264	25,291,970
Clearing settlement funds	1,706,318	2,590,319	3,091,049
Bond investment within 3 months original maturity	–	622,632	–
Financial assets held under resale agreements within 3 months original maturity	9,197,413	9,484,103	22,923,054
Less: Restricted bank deposits	(5,875,464)	(8,080,658)	(11,519,965)
Total	28,288,353	26,991,092	39,786,707

The restricted bank deposits mainly include bank deposits with original maturity of more than three months held by the Group and risk reserve deposits.

39 LOANS AND BORROWINGS

The Group

Current

	Currency	Nominal Interest Rate	Year of Maturity	As at 31 December 2016 Carrying Amount	2017 Carrying Amount	2018 Carrying Amount
Unsecured bank loans	HKD	2.84%-4.00625%	2019	–	41,796	411,744
Secured bank loans	HKD	1.55%-2.84%	2018	249,201	664,548	–
Unsecured bank loans	RMB	4.35%-4.785%	2018	–	1,400,000	–
Secured borrowing from commodity exchanges	RMB	0.90%-1.80%	2019	5,992	–	304,841
Unsecured loans from other financial institutions	RMB	5.60%	2019	–	–	1,000
Total				255,193	2,106,344	717,585

Non-current

	Currency	Nominal Interest Rate	Year of Maturity	As at 31 December 2016 Carrying Amount	2017 Carrying Amount	2018 Carrying Amount
Unsecured loans from other financial institutions	RMB	7.50%	2019	300,000	–	–
Unsecured loans from other financial institutions	RMB	5.60%	2020	–	651,000	650,800
Total				300,000	651,000	650,800

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 LOANS AND BORROWINGS (Continued)

The Company

Current

	Currency	Nominal Interest Rate	Year of Maturity	As at 31 December 2016 Carrying Amount	As at 31 December 2017 Carrying Amount	As at 31 December 2018 Carrying Amount
Unsecured bank loans	RMB	4.35%-4.785%	2018	–	1,400,000	–
Unsecured loans from other financial institutions	RMB	5.60%	2019	–	–	1,000
Total				–	1,400,000	1,000

Non-current

	Currency	Nominal Interest Rate	Year of Maturity	As at 31 December 2016 Carrying Amount	As at 31 December 2017 Carrying Amount	As at 31 December 2018 Carrying Amount
Unsecured loans from other financial institutions	RMB	5.60%	2020	–	651,000	650,800

40 SHORT-TERM DEBT INSTRUMENTS ISSUED

The Group

	Nominal Interest rate	Book value as at 1 January 2016	Issuance	Redemption	Book value as at 31 December 2016
Short-term corporate bonds	4.30%-5.10%	14,500,000	–	(14,500,000)	–
Structured notes	Fixed rate 1.00%-5.30%	9,856,792	9,648,700	(16,293,896)	3,211,596
Total		24,356,792	9,648,700	(30,793,896)	3,211,596

	Nominal Interest rate	Book value as at 1 January 2017	Issuance	Redemption	Book value as at 31 December 2017
Short-term corporate bonds	4.65%-4.89%	–	5,700,000	–	5,700,000
Structured notes	Fixed rate 0.09% plus floating rate-5.60%	3,211,596	20,751,337	(14,417,600)	9,545,333
Total		3,211,596	26,451,337	(14,417,600)	15,245,333

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SHORT-TERM DEBT INSTRUMENTS ISSUED (Continued)

The Group (Continued)

	Nominal Interest rate	Book value as at 1 January 2018	Issuance	Redemption	Book value as at 31 December 2018
Short-term corporate bonds	5.50%	5,700,000	6,000,000	(5,700,000)	6,000,000
Structured notes	Fixed rate 2.00%-8.00%	9,545,333	33,607,528	(35,932,714)	7,220,147
Total		15,245,333	39,607,528	(41,632,714)	13,220,147

In 2016, the Group has issued 81 tranches of structured notes, and repaid 124 tranches of structured notes during the year. Until 31 December 2016, the outstanding balance bears interest rate ranging from fixed rate 1.00% to 5.30% per annum, repayable within 1 year.

In 2017, the Group has issued 245 tranches of structured notes, and repaid 194 tranches of structured notes during the year. The outstanding balance bears interest rate ranging from fixed rate 0.09% plus floating rate to 5.60% per annum, repayable within 1 year.

In 2018, the Group has issued 550 tranches of structured notes, and repaid 505 tranches of structured notes during the year. The outstanding balance bears interest rate ranging from fixed rate 2.00% to 8.00% per annum, repayable within 1 year.

41 PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

The Group

	Note	As at 31 December 2016	2017	2018
Placements from CSF	(1)	2,000,000	4,000,000	3,800,000
Interbank lending	(2)	1,000,000	3,900,000	7,818,941
Total		3,000,000	7,900,000	11,618,941

(1) As at 31 December 2016, the placements from CSF bear interest rate ranging from 3.00% to 3.20% per annum respectively, with original maturities within 91 days. As at 31 December 2017, the placements from CSF bear interest rate of 5.1% per annum, with original maturities within 182 days. As at 31 December 2018, the placements from CSF bear interest rate ranging from 4.30% to 5.10% per annum respectively, with original maturities within 182 days.

(2) As at 31 December 2016, the interbank lending is unsecured and bears interest rate at 5.50% per annum, with maturity of 7 days. As at 31 December 2017, the interbank lending is unsecured and bears interest rate ranging from 3.15% to 7.20% per annum, with maturity of 7 days. As at 31 December 2018, the interbank lending is unsecured and bears interest rate ranging from 2.86% to 5.70% per annum, with maturities ranging from 7 days to 365 days.

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

Non-current

	As at 31 December 2016	2017	2018
Financial liabilities designated at fair value through profit or loss[(1)]	–	–	44,017

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Group (Continued)

Current

	As at 31 December		
	2016	2017	2018
Financial liabilities held for trading			
—Gold	857,675	2,648,100	142,330
—Debt securities	196,467	–	2,632,756
Financial liabilities designated at fair value through profit or loss[1]	–	–	3,355
Total	1,054,142	2,648,100	2,778,441

(1) The financial liabilities arising from consolidation of structured entities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors upon maturity dates of the structured entities based on relevant terms of these structured entities.

43 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The Group

	As at 31 December		
	2016	2017	2018
Clients' deposits for other brokerage business	79,280,281	55,796,942	51,470,379
Clients' deposits for margin financing and securities lending	10,424,134	7,831,828	8,800,183
Total	89,704,415	63,628,770	60,270,562

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to securities brokerage clients are interest-bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excess amounts over the required margin deposits and cash collateral 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

44 EMPLOYEE BENEFITS PAYABLE

The Group

Current and non-current

	2016			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	5,561,809	4,777,887	(5,457,935)	4,881,761
Contribution to pension schemes	1,717	237,608	(236,823)	2,502
Other social welfare	87,658	745,410	(728,193)	104,875
Total	5,651,184	5,760,905	(6,422,951)	4,989,138

	2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	4,881,761	3,907,007	(5,813,148)	2,975,620
Contribution to pension schemes	2,502	270,593	(269,008)	4,087
Other social welfare	104,875	862,992	(831,393)	136,474
Total	4,989,138	5,040,592	(6,913,549)	3,116,181

	2018			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	2,975,620	3,953,589	(4,325,931)	2,603,278
Contribution to pension schemes	4,087	304,142	(305,560)	2,669
Other social welfare	136,474	920,212	(924,822)	131,864
Total	3,116,181	5,177,943	(5,556,313)	2,737,811

The Company

Current and non-current

	2016			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	34,210	96,576	(70,600)	60,186
Contribution to pension schemes	–	3,892	(3,892)	–
Other social welfare	1,034	9,440	(7,509)	2,965
Total	35,244	109,908	(82,001)	63,151

	2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	60,186	137,954	(130,461)	67,679
Contribution to pension schemes	–	4,286	(4,286)	–
Other social welfare	2,965	13,538	(14,016)	2,487
Total	63,151	155,778	(148,763)	70,166

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

44 EMPLOYEE BENEFITS PAYABLE (Continued)

The Company (Continued)

Current and non-current (Continued)

	2018			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	67,679	129,698	(87,231)	110,146
Contribution to pension schemes	–	4,791	(4,791)	–
Other social welfare	2,487	20,295	(22,108)	674
Total	70,166	154,784	(114,130)	110,820

45 OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December		
	2016	2017	2018
Payables to interest holders of consolidated structured entities	14,882,771	12,635,394	11,995,527
Interest payables	1,334,477	1,528,950	2,267,845
Settlement payables	389,513	136,012	190,058
Payables on behalf of staff	183,047	118,106	82,687
Dividend payables	135,663	135,201	135,201
Business tax and other tax payables	135,497	161,338	337,127
Long-term payables	132,759	133,126	133,494
Risk reserve for futures brokerage business	123,089	143,827	162,980
Accrued expenses	62,428	22,262	13,237
Distribution expenses payables	57,669	57,087	83,957
Fees and commission payables	51,636	35,114	28,805
Payables to the securities and futures investor protection fund	41,667	31,801	35,795
Deposits	40,785	42,842	46,004
Interest and dividend received on behalf of brokerage clients	34,075	25,577	23,274
Account executive commission payables	32,630	29,053	14,918
Others[1]	79,797	94,325	83,811
Total	17,717,503	15,330,015	15,634,720

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

45 OTHER PAYABLES AND ACCRUALS (Continued)

The Company

	As at 31 December		
	2016	2017	2018
Interest payables	191,236	201,408	353,242
Business tax and other tax payables	28,151	3,481	785
Payables on behalf of staff	210	1,461	6,481
Temporary receipts	11,220	–	741
Payables for acquisition of subsidiaries	2,126,968	–	–
Others(1)	877	664	2,320
Total	2,358,662	207,014	363,569

(1) The balance of others mainly represents sundry payables arising from the Group's daily business operation.

46 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by collateral type:

The Group

Current

	As at 31 December		
	2016	2017	2018
Debt securities	18,131,257	44,208,492	61,526,090
Margin loans receivable backed repurchase agreements	15,281,641	12,201,000	12,500,000
Others	163,835	–	845,790
Total	33,576,733	56,409,492	74,871,880

Non-current

	As at 31 December		
	2016	2017	2018
Margin loans receivable backed repurchase agreements	1,201,000	7,750,000	3,800,000
Securities-backed lending repurchase agreements	–	500,000	500,000
Total	1,201,000	8,250,000	4,300,000

The Company

Non-current

	As at 31 December		
	2016	2017	2018
Securities-backed lending repurchase agreements	–	500,000	500,000

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

46 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

(b) Analysed by market:

The Group

Current

	As at 31 December		
	2016	2017	2018
Stock exchanges	8,552,592	22,136,943	20,352,572
Inter-bank market	9,578,664	22,071,549	41,173,518
OTC market	15,445,477	12,201,000	13,345,790
Total	33,576,733	56,409,492	74,871,880

Non-current

	As at 31 December		
	2016	2017	2018
OTC market	1,201,000	8,250,000	4,300,000

The Company

Non-current

	As at 31 December		
	2016	2017	2018
OTC market	–	500,000	500,000

47 CONTRACT LIABILITIES

The Group

	As at 31 December		
	2016	2017	2018
Commodity trading contracts	–	–	56,073
Sponsorship and financial advisory contracts	–	–	22,340
Assets management contracts	–	–	8,337
Total	–	–	86,750

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB 456,823 thousand. This amount represents revenue expected to be recognized in the future from commodity trading, sponsorship and financial advisory business and asset management business. The Group will recognize the expected revenue in future when or as the work is completed or, in the case of commodity trading, when the customer takes possession of and accepts the commodity, most of which is expected to occur over the next 12 to 24 months.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS

The Group

As at 31 December 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
12 ShenWan[1]	6,000,000	2013/07/29	2019/07/29	5,987,700	5.20%
15 ShenZheng C1[2]	10,000,000	2015/06/30	2019/06/30	10,000,000	5.30%
16 ShenZheng C1[3]	10,000,000	2016/03/25	2021/03/25	10,000,000	3.62%
16 ShenHong 01[4]	5,000,000	2016/04/26	2021/04/26	5,000,000	3.45%
16 ShenHong 02[5]	2,000,000	2016/09/09	2019/09/09	2,000,000	2.90%
16 ShenHong 03[6]	5,500,000	2016/09/09	2021/09/09	5,500,000	3.20%
16 ShenZheng C2[7]	5,000,000	2016/10/19	2018/10/19	5,000,000	3.17%
16 ShenZheng C3[8]	5,000,000	2016/10/19	2019/10/19	5,000,000	3.28%
Structured note[22]	13,835,268	Note[22]	Note[22]	13,835,268	3.53%-6.20%

Name	Book value as at 1 January 2016	Increase	Amount of amortization	Decrease	Book value as at 31 December 2016
12 ShenWan[1]	5,992,674	–	2,055	–	5,994,729
15 ShenZheng C1[2]	10,000,000	–	–	–	10,000,000
16 ShenZheng C1[3]	–	10,000,000	–	–	10,000,000
16 ShenHong 01[4]	–	5,000,000	–	–	5,000,000
16 ShenHong 02[5]	–	2,000,000	–	–	2,000,000
16 ShenHong 03[6]	–	5,500,000	–	–	5,500,000
16 ShenZheng C2[7]	–	5,000,000	–	–	5,000,000
16 ShenZheng C3[8]	–	5,000,000	–	–	5,000,000
Structured notes[22]	10,195,518	7,832,236	–	(4,192,486)	13,835,268
Total	26,188,192	40,332,236	2,055	(4,192,486)	62,329,997

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS (Continued)

The Group (Continued)

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
12 ShenWan[1]	6,000,000	2013/07/29	2019/07/29	5,987,700	5.20%
15 ShenZheng C1[2]	10,000,000	2015/06/30	2019/06/30	10,000,000	5.30%
16 ShenZheng C1[3]	10,000,000	2016/03/25	2021/03/25	10,000,000	3.62%
16 ShenHong 01[4]	5,000,000	2016/04/26	2021/04/26	5,000,000	3.45%
16 ShenHong 02[5]	2,000,000	2016/09/09	2019/09/09	2,000,000	2.90%
16 ShenHong 03[6]	5,500,000	2016/09/09	2021/09/09	5,500,000	3.20%
16 ShenZheng C2[7]	5,000,000	2016/10/19	2018/10/19	5,000,000	3.17%
16 ShenZheng C3[8]	5,000,000	2016/10/19	2019/10/19	5,000,000	3.28%
17 ShenZheng 01[9]	7,500,000	2017/02/17	2022/02/17	7,500,000	4.40%
17 ShenZheng 02[10]	500,000	2017/02/17	2024/02/17	500,000	4.50%
17 ShenZheng C1[11]	400,000	2017/11/16	2019/11/16	400,000	5.20%
17 ShenZheng C2[12]	4,300,000	2017/11/16	2020/11/16	4,300,000	5.30%
Structured notes[23]	14,470,224	Note[23]	Note[23]	14,470,224	3.53%-5.60%

Name	Book value as at 1 January 2017	Increase	Amount of amortization	Decrease	Book value as at 31 December 2017
12 ShenWan[1]	5,994,729	–	2,049	–	5,996,778
15 ShenZheng C1[2]	10,000,000	–	–	(10,000,000)	–
16 ShenZheng C1[3]	10,000,000	–	–	–	10,000,000
16 ShenHong 01[4]	5,000,000	–	–	–	5,000,000
16 ShenHong 02[5]	2,000,000	–	–	–	2,000,000
16 ShenHong 03[6]	5,500,000	–	–	–	5,500,000
16 ShenZheng C2[7]	5,000,000	–	–	–	5,000,000
16 ShenZheng C3[8]	5,000,000	–	–	–	5,000,000
17 ShenZheng 01[9]	–	7,500,000	–	–	7,500,000
17 ShenZheng 02[10]	–	500,000	–	–	500,000
17 ShenZheng C1[11]	–	400,000	–	–	400,000
17 ShenZheng C2[12]	–	4,300,000	–	–	4,300,000
Structured notes[23]	13,835,268	7,055,905	–	(6,420,949)	14,470,224
Total	62,329,997	19,755,905	2,049	(16,420,949)	65,667,002

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS (Continued)

The Group (Continued)

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
12 ShenWan[1]	6,000,000	2013/07/29	2019/07/29	5,987,700	5.20%
16 ShenZheng C1[3]	10,000,000	2016/03/25	2021/03/25	10,000,000	3.62%
16 ShenHong 01[4]	5,000,000	2016/04/26	2021/04/26	5,000,000	3.45%
16 ShenHong 02[5]	2,000,000	2016/09/09	2019/09/09	2,000,000	2.90%
16 ShenHong 03[6]	5,500,000	2016/09/09	2021/09/09	5,500,000	3.20%
16 ShenZheng C2[7]	5,000,000	2016/10/19	2018/10/19	5,000,000	3.17%
16 ShenZheng C3[8]	5,000,000	2016/10/19	2019/10/19	5,000,000	3.28%
17 ShenZheng 01[9]	7,500,000	2017/02/17	2022/02/17	7,500,000	4.40%
17 ShenZheng 02[10]	500,000	2017/02/17	2024/02/17	500,000	4.50%
17 ShenZheng C1[11]	400,000	2017/11/16	2019/11/16	400,000	5.20%
17 ShenZheng C2[12]	4,300,000	2017/11/16	2020/11/16	4,300,000	5.30%
18 ShenZheng C1[13]	1,400,000	2018/04/12	2020/04/12	1,400,000	5.25%
18 ShenZheng C2[14]	4,600,000	2018/04/12	2023/04/12	4,600,000	5.35%
18 ShenZheng C3[15]	4,200,000	2018/05/21	2020/05/21	4,200,000	5.38%
18 ShenHong 01[16]	500,000	2018/07/17	2023/07/17	499,997	4.40%
18 ShenHong 02[17]	6,500,000	2018/07/17	2023/07/17	6,499,956	4.80%
18 ShenZheng C5[18]	5,100,000	2018/09/17	2020/09/17	5,100,000	4.69%
18 ShenZheng 01[19]	2,000,000	2018/11/19	2020/11/19	2,000,000	4.10%
18 ShenZheng 02[20]	3,000,000	2018/11/19	2021/11/19	3,000,000	4.20%
18 ShenZheng 03[21]	1,500,000	2018/12/10	2023/12/10	1,500,000	4.08%
Structured notes[24]	12,900,391	Note[24]	Note[24]	12,900,391	3.00%-5.80%

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS (Continued)

The Group (Continued)

As at 31 December 2018 (Continued)

Name	Book value as at 1 January 2018	Increase	Amount of amortization	Decrease	Book value as at 31 December 2018
12 ShenWan[1]	5,996,778	–	2,048	–	5,998,826
16 ShenZheng C1[3]	10,000,000	–	–	–	10,000,000
16 ShenHong 01[4]	5,000,000	–	–	–	5,000,000
16 ShenHong 02[5]	2,000,000	–	–	–	2,000,000
16 ShenHong 03[6]	5,500,000	–	–	–	5,500,000
16 ShenZheng C2[7]	5,000,000	–	–	(5,000,000)	–
16 ShenZheng C3[8]	5,000,000	–	–	–	5,000,000
17 ShenZheng 01[9]	7,500,000	–	–	–	7,500,000
17 ShenZheng 02[10]	500,000	–	–	–	500,000
17 ShenZheng C1[11]	400,000	–	–	–	400,000
17 ShenZheng C2[12]	4,300,000	–	–	–	4,300,000
18 ShenZheng C1[13]	–	1,400,000	–	–	1,400,000
18 ShenZheng C2[14]	–	4,600,000	–	–	4,600,000
18 ShenZheng C3[15]	–	4,200,000	–	–	4,200,000
18 ShenHong 01[16]	–	499,997	–	–	499,997
18 ShenHong 02[17]	–	6,499,956	4	–	6,499,960
18 ShenZheng C5[18]	–	5,100,000	–	–	5,100,000
18 ShenZheng 01[19]	–	2,000,000	–	–	2,000,000
18 ShenZheng 02[20]	–	3,000,000	–	–	3,000,000
18 ShenZheng 03[21]	–	1,500,000	–	–	1,500,000
Structured notes[24]	14,470,224	10,679,866	1	(12,249,700)	12,900,391
Total	65,667,002	39,479,819	2,053	(17,249,700)	87,899,174

	As at 31 December		
	2016	2017	2018
Long-term bonds due within one year	5,954,542	16,522,350	22,331,358
Long-term bonds due after one year	56,375,455	49,144,652	65,567,816
Total	62,329,997	65,667,002	87,899,174

The Company

As at 31 December 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
16 ShenHong 01[4]	5,000,000	2016/04/26	2021/04/26	4,980,000	3.45%
16 ShenHong 02[5]	2,000,000	2016/09/09	2019/09/09	1,996,000	2.90%
16 ShenHong 03[6]	5,500,000	2016/09/09	2021/09/09	5,489,000	3.20%

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS (Continued)

The Company (Continued)

As at 31 December 2016 (Continued)

Name	Book value as at 1 January 2016	Increase	Amount of amortization	Decrease	Book value as at 31 December 2016
16 ShenHong 01[4]	–	4,980,000	2,473	–	4,982,473
16 ShenHong 02[5]	–	1,996,226	378	–	1,996,604
16 ShenHong 03[6]	–	5,489,623	601	–	5,490,224
Total	–	12,465,849	3,452	–	12,469,301

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
16 ShenHong 01[4]	5,000,000	2016/04/26	2021/04/26	4,980,000	3.45%
16 ShenHong 02[5]	2,000,000	2016/09/09	2019/09/09	1,996,000	2.90%
16 ShenHong 03[6]	5,500,000	2016/09/09	2021/09/09	5,489,000	3.20%

Name	Book value as at 1 January 2017	Increase	Amount of amortization	Decrease	Book value as at 31 December 2017
16 ShenHong 01[4]	4,982,473	–	3,720	–	4,986,193
16 ShenHong 02[5]	1,996,604	–	1,232	–	1,997,836
16 ShenHong 03[6]	5,490,224	–	1,967	–	5,492,191
Total	12,469,301	–	6,919	–	12,476,220

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
16 ShenHong 01[4]	5,000,000	2016/04/26	2021/04/26	4,980,000	3.45%
16 ShenHong 02[5]	2,000,000	2016/09/09	2019/09/09	1,996,000	2.90%
16 ShenHong 03[6]	5,500,000	2016/09/09	2021/09/09	5,489,000	3.20%
18 ShenHong 01[16]	500,000	2018/07/17	2023/07/17	499,400	4.40%
18 ShenHong 02[17]	6,500,000	2018/07/17	2023/07/17	6,492,200	4.80%

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS (Continued)

The Company (Continued)

As at 31 December 2018 (Continued)

Name	Book value as at 1 January 2018	Increase	Amount of amortization	Decrease	Book value as at 31 December 2018
16 ShenHong 01[4]	4,986,193	–	3,853	–	4,990,046
16 ShenHong 02[5]	1,997,836	–	1,269	–	1,999,105
16 ShenHong 03[6]	5,492,191	–	2,032	–	5,494,223
18 ShenHong 01[16]	–	499,434	82	–	499,516
18 ShenHong 02[17]	–	6,492,642	606	–	6,493,248
Total	12,476,220	6,992,076	7,842	–	19,476,138

	As at 31 December		
	2016	2017	2018
Long-term bonds due within one year	–	–	1,999,105
Long-term bonds due after one year	12,469,301	12,476,220	17,477,033
Total	12,469,301	12,476,220	19,476,138

As approved by the Board and related regulatory authorities, the Group has issued the following bonds:

(1) 6-year corporation bond amounting to RMB 6 billion on 29 July 2013 with early redemption right on 29 July 2016.

(2) 4-year subordinated bond amounting to RMB10 billion on 30 June 2015 with early redemption right on 30 June 2017. 15 ShenZheng C1 was early redeemed on 30 June 2017.

(3) 5-year subordinated bond amounting to RMB 10 billion on 25 March 2016 with early redemption right on 25 March 2019.

(4) 5-year corporation bond amounting to RMB5 billion on 26 April 2016 with early redemption right on 26 April 2019.

(5) 3-year corporation bond amounting to RMB2 billion on 09 September 2016.

(6) 5-year corporation bond amounting to RMB5.5 billion on 09 September 2016.

(7) 2-year subordinated bond amounting to RMB 5 billion on 19 October 2016.

(8) 3-year subordinated bond amounting to RMB 5 billion on 19 October 2016.

(9) 5-year corporation bond amounting to RMB 7.5 billion on 17 February 2017.

(10) 7-year corporation bond amounting to RMB 0.5 billion on 17 February 2017.

(11) 2-year subordinated bond amounting to RMB 0.4 billion on 16 November 2017.

(12) 3-year subordinated bond amounting to RMB 4.3 billion on 16 November 2017.

(13) 2-year subordinated bond amounting to RMB 1.4 billion on 12 April 2018.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

48 LONG-TERM BONDS (Continued)

(14) 5-year subordinated bond amounting to RMB 4.6 billion on 12 April 2018 with early redemption right on 12 April 2021.

(15) 2-year subordinated bond amounting to RMB 4.2 billion on 21 May 2018.

(16) 5-year corporation bond amounting to RMB 0.5 billion on 17 July 2018 with early redemption right on 17 July 2021.

(17) 5-year corporation bond amounting to RMB 6.5 billion on 17 July 2018.

(18) 2-year subordinated bond amounting to RMB 5.1 billion on 17 September 2018.

(19) 2-year corporation bond amounting to RMB 2 billion on 19 November 2018.

(20) 3-year corporation bond amounting to RMB 3 billion on 19 November 2018.

(21) 5-year corporation bond amounting to RMB 1.5 billion on 10 December 2018.

(22) In 2016, the Group has issued 11 tranches of structured notes over one year. The outstanding balance bears interest rate ranging from 3.53%-6.20% per annum.

(23) In 2017, the Group has issued 7 tranches of structured notes over one year. The outstanding balance bears interest rate ranging from 3.53%-5.60% per annum.

(24) In 2018, the Group has issued 121 tranches of structured notes over one year. The outstanding balance bears interest rate ranging from 3.00%-5.80% per annum.

49 OTHER NON-CURRENT LIABILITIES

Analysed by nature:

The Group

	As at 31 December		
	2016	2017	2018
Payables to interest holders of consolidated structured entities	2,310,376	1,117,079	139,515
Deferred income	73,691	88,809	81,649
Total	2,384,067	1,205,888	221,164

50 SHARE CAPITAL

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB 1. The Company's number of shares issued and their nominal value are as follows:

	As at 31 December		
	2016	2017	2018
Number of shares (thousands) registered issued and fully paid (at RMB 1 per share)	20,056,606	20,056,606	22,535,945

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

50 SHARE CAPITAL (Continued)

As at 31 December 2016, 2017 and 2018, the number of non-trade restricted A shares of the Company was 12,888,914,366, 12,646,599,332 and 2,507,825,367 respectively.

51 RESERVES AND RETAINED PROFITS

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

(b) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate certain percentage of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the Company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

(c) General reserve

General reserve includes general risk reserve and transaction risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007, the Group appropriates certain percentage of its annual net profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Group appropriates certain percentage of its annual net profit to the transaction risk reserve.

The Company's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

(d) Fair value reserve

The fair value reserve comprises:

Before 1 January 2018

The fair value reserve comprises the cumulative net changes in fair values of available-for-sale financial assets until the assets are derecognized or impaired.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

51 RESERVES AND RETAINED PROFITS (Continued)

(d) Fair value reserve (Continued)

From 1 January 2018

- The cumulative net change in the fair value of equity securities designated at FVOCI; and
- The cumulative net change in fair value of debt securities at FVOCI until the assets are derecognized or reclassified. This amount is reduced by the amount of loss allowance.

(e) Translation reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

(f) Retained profits

As at 31 December 2016, 2017 and 2018, the consolidated retained profits attributable to the Company included an appropriation of RMB 2,080 million, RMB 2,643 million and RMB 3,304 million to surplus reserve made by the subsidiaries respectively, and RMB 2,185 million, RMB 2,185 million and RMB 2,185 million enjoyed by shareholders arising from the merger of Hongyuan Securities under the same control.

Pursuant to the resolution of the general meeting of the shareholders dated 17 May 2016, the Company was approved to distribute cash dividends of RMB 1.50 (tax inclusive) per 10 shares and 3.50 shares of stock dividends per 10 shares to shareholders based on the total outstanding shares of 14,856,745 thousand shares, with total dividends amounting to RMB 7,428,372 thousand.

Pursuant to the resolution of the general meeting of the shareholders dated 19 April 2017, the Company was approved to distribute cash dividends of RMB 1.00 (tax inclusive) per 10 shares to shareholders based on the total outstanding shares of 20,056,606 thousand shares, with total dividends amounting to RMB 2,005,661 thousand.

Pursuant to the resolution of the general meeting of the shareholders dated 11 May 2018, the Company was approved to distribute cash dividends of RMB 0.50 (tax inclusive) per 10 shares to shareholders based on the total outstanding shares of 22,535,945 thousand shares, with total dividends amounting to RMB 1,126,797 thousand.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

51 RESERVES AND RETAINED PROFITS (Continued)

(g) Other comprehensive income accumulated in reserves during the year, net of tax

The Group

	As at 31 December 2016				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets —Net changes in fair value	(765,215)	–	(765,215)	(283)	(765,498)
—Reclassified to profit or loss	(387,482)	–	(387,482)	(524)	(388,006)
Share of other comprehensive income of associates	(10,735)	–	(10,735)	–	(10,735)
Exchange differences on translation of financial statements in foreign currencies	–	53,406	53,406	87,243	140,649
Total	(1,163,432)	53,406	(1,110,026)	86,436	(1,023,590)

	As at 31 December 2017				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets —Net changes in fair value	659,444	–	659,444	2,471	661,915
—Reclassified to profit or loss	(291,737)	–	(291,737)	(2,400)	(294,137)
Share of other comprehensive income of associates	(4,901)	–	(4,901)	–	(4,901)
Exchange differences on translation of financial statements in foreign currencies	–	(56,211)	(56,211)	(90,088)	(146,299)
Total	362,806	(56,211)	306,595	(90,017)	216,578

	As at 31 December 2018				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Items that may be reclassified subsequently to profit or loss:					
Financial assets at fair value through other comprehensive income —Net changes in fair value	404,616	–	404,616	–	404,616
—Reclassified to profit or loss	(176,125)	–	(176,125)	–	(176,125)
Share of other comprehensive income of associates	367	–	367	–	367
Exchange differences on translation of financial statements in foreign currencies	–	52,032	52,032	63,224	115,256
Items that will not be reclassified to profit or loss:					
Equity investment at fair value through other comprehensive income —Net changes in fair value	(1,080,540)	–	(1,080,540)	–	(1,080,540)
Total	(851,682)	52,032	(799,650)	63,224	(736,426)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

52 TRANSFERRED FINANCIAL ASSETS

In the ordinary course of business, the Group transfers recognized financial assets to third parties or clients during some transactions, but retains the risks and rewards of the transferred financial assets. Therefore, the Group does not derecognize such financial assets in the balance sheet.

The Group receives payments for the transfer of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income to counterparties and has signed agreements to repurchase such assets. According to the agreements, the counterparties have the right to receive contractual cash flows during the term of the agreements and use such securities again as collateral, and is obliged to return such securities to the Group on the due date specified in the agreements. The Group believes that the risks and rewards of such financial assets are not transferred and therefore it does not derecognize such financial assets in the balance sheet.

The Group receives payments for the transfer of the income right of margin financing to counterparties and has signed agreements to repurchase such assets. According to the repurchase agreements, the income right transferred to the counterparties by the Group includes any other income that the Group may obtain under the contract of margin financing and securities lending, and the counterparties shall return the income right to the Group after the end of the repurchase period. The Group believes that the risks and rewards of such financial assets are not transferred and therefore it does not derecognize such financial assets in the balance sheet.

	As at 31 December 2016		As at 31 December 2017		As at 31 December 2018	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	20,562,361	(16,604,934)	22,615,338	(20,948,184)	17,768,176	(16,802,192)
Securities lending	100,760	–	99,473	–	463,994	–

53 COMMITMENTS

Operating lease commitments

As at 31 December 2016, 2017 and 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

The Group

	As at 31 December		
	2016	2017	2018
Within 1 year (inclusive)	283,121	289,133	408,781
1-2 years (inclusive)	203,531	221,677	251,424
2-3 years (inclusive)	153,147	144,334	120,428
After 3 years	110,544	149,338	170,397
Total	750,343	804,482	951,030

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

54 INTERESTS IN STRUCTURED ENTITIES

(a) Interests in structured entities consolidated by the Group

The Group had consolidated certain structured entities, mainly wealth management products. For those structured entities where the Group is involved as manager or as investor, the Group assesses the controlling power according to accounting policies stated in Note 2(6)(i).

As at 31 December 2016, 2017 and 2018, the net assets of the consolidated asset management products are RMB 20,817,931 thousand, RMB 15,857,777 thousand and RMB 13,641,596 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB 3,643,402 thousand, RMB 2,224,578 thousand and RMB 1,459,183 thousand respectively.

Interests held by other investors in these consolidated structured entities were classified as net investment gains or interest expenses of the consolidated statements of profit or loss, financial liabilities at fair value through profit or loss, other payables and accruals or other non-current liabilities of the consolidated statements of financial position.

At the end of the Relevant Periods, the Group reassessed the control of structured entities and decided whether the Group is still a principal.

(b) Structured entities sponsored by third party institutions which the Group does not consolidate but holds an interest in

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issued units to investors.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

54 INTERESTS IN STRUCTURED ENTITIES (Continued)

(b) Structured entities sponsored by third party institutions which the Group does not consolidate but holds an interest in (Continued)

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at the end of the Relevant Periods, which are listed as below:

	As at 31 December 2016			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Investments classified as receivables	Total
Funds	430,982	6,298,241	–	6,729,223
Wealth management products and others	24,049,699	–	200,000	24,249,699
Total	24,480,681	6,298,241	200,000	30,978,922

	As at 31 December 2017			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Investments classified as receivables	Total
Funds	170,290	6,992,922	–	7,163,212
Wealth management products and others	21,446,839	723,916	–	22,170,755
Total	21,617,129	7,716,838	–	29,333,967

	As at 31 December 2018			
	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Total
Funds	–	15,599,287	–	15,599,287
Wealth management products and others	6,241,521	10,950,747	8,899,295	26,091,563
Total	6,241,521	26,550,034	8,899,295	41,690,850

(c) Structured entities sponsored by the Group which the Group does not consolidate

The types of structured entities sponsored by the Group which the Group does not consolidate but in which it holds an interest include funds and asset management products.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

54 INTERESTS IN STRUCTURED ENTITIES (Continued)

(c) Structured entities sponsored by the Group which the Group does not consolidate (Continued)

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by the Group as at the end of the Relevant Periods, which are listed as below:

	As at 31 December 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	79,287	250,926	330,213
Wealth management products and others	358,709	169,191	527,900
Total	437,996	420,117	858,113

	As at 31 December 2017		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	38,170	35,266	73,436
Wealth management products and others	1,615,996	143,208	1,759,204
Total	1,654,166	178,474	1,832,640

	As at 31 December 2018		
	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Total
Funds	594,850	–	594,850
Wealth management products and others	1,967,790	363,172	2,330,962
Total	2,562,640	363,172	2,925,812

As at 31 December 2016, 2017 and 2018, the net assets of these unconsolidated structured entities in which the Group acted as asset manager amounted to RMB 792,944,695 thousand, RMB 925,885,454 thousand and RMB 725,896,545 thousand, respectively.

During the years ended 31 December 2016, 2017 and 2018, the Group recognized the net income from asset management business of RMB 1,804,120 thousand, RMB 1,303,079 thousand and RMB 1,198,656 thousand, respectively. As at 31 December 2016, 2017 and 2018, the corresponding remuneration receivables totaled RMB 306,405 thousand, RMB 404,702 thousand and RMB 410,145 thousand, respectively.

55 CONTINGENCIES

As at 31 December 2016, 2017 and 2018, the Group was not involved in any material legal, arbitration or administrative proceedings that if adversely determined, the Group expect would materially adversely affect their financial position or results of operations.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership. Share percentage in the Company:

	As at 31 December		
	2016	2017	2018
China Jianyin Investment Ltd.	32.89%	32.89%	29.27%
Central Huijin Investment Ltd.	25.03%	25.03%	22.28%
Shanghai Jiushi(Group) Co., Ltd.	6.05%	6.05%	5.38%

(ii) Associates and joint ventures of the Company

The detailed information of the Company's associates and joint ventures is set out in Note 22.

(iii) Other related parties

Other related parties mainly include subsidiaries of major shareholders and key management personnel.

(b) Related parties transactions and balances

(i) Transactions between the Group and major shareholders:

	As at 31 December		
	2016	2017	2018
Balances at the end of the year			
Financial assets at fair value through profit or loss	199,510	198,110	–
Other receivables and prepayments	1,965	6,641	–

	As at 31 December		
	2016	2017	2018
Transactions during the year			
Fee and commission income	–	3,257	7,557
Net investment gains	6,513	6,641	7,647

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(b) Related parties transactions and balances (Continued)

(ii) Transactions between the Group with associates, joint ventures and other related parties:

	As at 31 December		
	2016	2017	2018
Balances at the end of the year			
Cash and bank balances	49,602,535	31,222,134	30,606,701
Financial assets held under resale agreements	179,825	–	–
Financial assets sold under repurchase agreements	–	–	5,272,430
Accounts receivable	15,107	21,354	12,270
Property and equipment	17,818	–	–
Loans and borrowings	5,000	500,000	–
Other payables and accruals	26,613	31,798	46,924

	As at 31 December		
	2016	2017	2018
Transactions during the year			
Interest income	1,125,210	1,074,629	968,302
Fee and commission income	133,901	170,642	157,818
Net investment gains	–	506	10,190
Other income and gains	5,694	8,892	8,151
Fee and commission expenses	98,856	80,236	75,435
Interest expenses	17,432	85,078	88,173
Other operating expenses	15,937	9,906	20,459

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 15, is as follows:

	As at 31 December		
	2016	2017	2018
Short-term employee benefits			
—Fees, salaries, allowances and bonuses	33,530	26,662	19,317
Post-employment benefits			
—Contributions to pension scheme	1,691	1,604	1,937
Total	35,221	28,266	21,254

Total remuneration is included in "staff costs" (see Note 10).

57 SEGMENT REPORTING

During the year of 2018, the Group commenced to allocate resources and assess the segment performance based on the revised grouping of operating segments. Accordingly, the Relevant Periods' segment reporting presentation has been presented in accordance with the new approach adopted by the Group in the Historical Financial Information.

- Enterprise finance segment includes investment banking and principal investment services to the corporate clients: investment banking business primarily includes equity

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 SEGMENT REPORTING (Continued)

underwriting and sponsorship, debt underwriting and financial advisory services; principal investment business primarily includes the Group's equity investment in unlisted companies and debt investment primarily through various financial instruments;

- Personal finance segment primarily includes securities and futures brokerage, margin financing and securities lending, stock-backed lending, sales of financial products and investment advisory provided to individuals and non-professional institutional investors;
- Institutional services and trading segment primarily includes prime brokerage and research services for professional institutional clients, as well as equity and Fixed Income Currencies and Commodities (FICC) proprietary trading to provide sales, market-making, hedging and OTC derivatives services to institutional clients;
- Investment management segment primarily includes asset management, mutual fund management, private equity fund management services to clients.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

57 SEGMENT REPORTING (Continued)

Business segments

For the year ended 31 December 2016

	Enterprise finance		Personal finance	Institutional services and trading	Investment management	Segment total
	Investment banking	Principal investment				
Fee and commission income	2,257,005	68,337	6,240,491	1,054,210	1,934,047	11,554,090
Interest income	21,295	69,302	6,279,796	638,917	245,190	7,254,500
Net investment gains	76,841	759,312	32,571	1,387,406	416,224	2,672,354
Other income and gains	7,142	146,331	33,921	22,303	28,179	237,876
Total revenue and other income	2,362,283	1,043,282	12,586,779	3,102,836	2,623,640	21,718,820
Segment expenses	1,339,320	519,072	9,227,371	2,706,318	1,753,188	15,545,269
Including: Interest expenses	–	111,508	3,038,205	1,672,275	565,023	5,387,011
Provision for /(reversal of) impairment losses	–	21,949	(3,570)	295,475	136,916	450,770
Share of profit of associates and joint ventures	–	211,761	–	–	–	211,761
Profit before income tax	1,022,963	735,971	3,359,408	396,518	870,452	6,385,312
Other segment information:						
Depreciation and amortization expenses	13,853	49,728	159,404	32,874	30,168	286,027
Capital expenditure paid	2,958	85,588	117,705	26,293	12,885	245,429

As at 31 December 2016

Segment assets	2,971,643	16,006,731	142,480,783	89,870,266	22,579,498	273,908,921
Deferred tax assets						1,580,342
Segment total assets						275,489,263
Segment liabilities	642,286	15,816,811	112,992,589	69,341,098	21,868,404	220,661,188
Deferred tax liabilities						754,834
Segment total liabilities						221,416,022

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

57 SEGMENT REPORTING (Continued)

Business segments (Continued)

For the year ended 31 December 2017

	Enterprise finance		Personal finance	Institutional services and trading	Investment management	Segment total
	Investment banking	Principal investment				
Fee and commission income	1,477,986	78,700	4,935,451	891,840	1,364,512	8,748,489
Interest income	54,460	82,557	6,547,693	1,056,184	398,467	8,139,361
Net investment gains	55,094	910,561	33,604	2,496,078	254,267	3,749,604
Other income and gains	2,220	176,600	32,966	43,254	32,155	287,195
Total revenue and other income	1,589,760	1,248,418	11,549,714	4,487,356	2,049,401	20,924,649
Segment expenses	999,086	672,826	8,367,894	3,669,047	1,511,474	15,220,327
Including: Interest expenses	–	283,353	2,858,581	2,648,767	598,917	6,389,618
Provision for impairment losses	42	112,077	114,142	202,271	–	428,532
Share of profit of associates and joint ventures	–	223,171	–	–	–	223,171
Profit before income tax	590,674	798,763	3,181,820	818,309	537,927	5,927,493
Other segment information:						
Depreciation and amortization expenses	12,448	48,836	184,958	26,317	22,967	295,526
Capital expenditure paid	4,829	130,183	129,223	18,295	12,408	294,938

As at 31 December 2017

Segment assets	2,540,271	19,739,370	152,229,189	106,570,069	17,553,943	298,632,842
Deferred tax assets						1,310,456
Segment total assets						299,943,298
Segment liabilities	445,023	14,106,354	131,791,733	80,308,167	15,835,056	242,486,333
Deferred tax liabilities						451,187
Segment total liabilities						242,937,520

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

57 SEGMENT REPORTING (Continued)

Business segments (Continued)

For the year ended 31 December 2018

	Enterprise finance		Personal finance	Institutional services and trading	Investment management	Segment total
	Investment banking	Principal investment				
Fee and commission income	889,245	66,186	3,368,803	819,547	1,275,530	6,419,311
Interest income	33,428	74,891	7,776,754	1,045,363	520,500	9,450,936
Net investment gains/(losses)	30,972	957,361	(55,248)	4,587,154	124,326	5,644,565
Other income and gains	2,007	112,104	47,411	2,411,981	21,302	2,594,805
Total revenue and other income	955,652	1,210,542	11,137,720	8,864,045	1,941,658	24,109,617
Segment expenses	586,484	887,033	9,333,396	7,191,025	1,136,010	19,133,948
Including: Interest expenses	–	506,141	3,861,910	3,263,759	457,277	8,089,087
(Reversal of)/ provision for impairment losses	(155)	38,953	493,564	128,736	(2,353)	658,745
Share of profit of associates and joint ventures	–	211,596	–	–	–	211,596
Profit before income tax	369,168	535,105	1,804,324	1,673,020	805,648	5,187,265
Other segment information:						
Depreciation and amortization expenses	12,296	38,273	161,360	60,209	25,771	297,909
Capital expenditure paid	2,138	113,938	110,627	15,286	18,705	260,694

As at 31 December 2018

Segment assets	1,714,160	25,117,893	142,878,582	157,718,502	18,495,223	345,924,360
Deferred tax assets						1,800,675
Segment total assets						347,725,035
Segment liabilities	249,803	16,898,277	129,996,116	114,524,432	14,618,368	276,286,996
Deferred tax liabilities						242,110
Segment total liabilities						276,529,106

The Group's non-current assets are mainly located in mainland China. The Group's revenue are substantially derived from its operations in mainland China.

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The risks faced by the Group in its daily operation and management mainly include market risk, credit risk and liquidity risk.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

This note presents information about the Group's exposure to each of the above risks, their sources and their changes during the year, as well as the Group's objectives, policies and processes for measuring and managing risks and their changes during the year.

The Group aims to strike an appropriate balance between the risks and benefits of its financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group's risk management policies are established to identify and assess the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and compliance with limits. Risk management policies and internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) Credit risk

Credit risk refers to the risk that the Group may face when its financiers, counterparties or bond issuers fail to perform the agreed financial obligations. The Group's credit risk exposures mainly exist in its personal finance, proprietary trading, and principal investment businesses.

The Group has mainly adopted the following measures to detect, report and manage credit risk:

- Established an internal rating system for credit risk, and conducted concentration risk management of the clients;
- Optimised risk assessment and analysis of clients and collateral, and reinforced continuous supervision. The Group has also been improving credit risk management system, and set up company-level negative lists of counterparties so as to collect and manage the list of clients with bad credit, and unified the management of negative information of clients;
- Set up strict entry criteria such as bond and issuer ratings for the proprietary trading business, and carried out pre-transaction review, post-transaction monitoring, and follow up on trading behaviours, credit ratings and types of securities, as well as scale and concentration of bonds;
- Enhanced measures and policies of derivatives tradings, set up rating and entry criteria for its counterparties, and improved the risk limit indicators system and pre-transaction review standard; and
- Tightened the review and management of certain businesses, such as stock-backed lending and principal investment business, on the assessment of client, concentration control, and scale of the businesses, and closely monitor project status on a continual basis.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The maximum credit risk exposure on the balance sheet date, without taking into account any collateral and other credit enhancements, refers to the carrying value of the relevant financial assets after the deduction of impairment provisions. The Group's maximum credit risk exposure is disclosed as follows:

(i) Maximum exposure to credit risk

Maximum exposure to credit risk of the Group and the Company without taking account of any collateral and other credit enhancements:

The Group

	As at 31 December		
	2016	2017	2018
Refundable deposits	5,760,862	5,459,343	5,830,612
Accounts receivable	1,466,675	1,525,437	1,237,590
Other receivables and prepayments	2,619,981	3,793,939	3,514,905
Margin accounts receivable	55,869,076	55,738,717	43,106,975
Available-for-sale financial assets	22,820,690	30,141,901	–
Financial assets held under resale agreements	17,731,941	44,053,326	66,079,891
Financial assets at fair value through profit or loss	25,509,206	38,992,758	66,442,550
Derivative financial assets	5,707	6,710	453,915
Financial assets measured at amortized cost	–	–	10,162,144
Financial assets at fair value through other comprehensive income	–	–	21,996,643
Clearing settlement funds	1,706,318	2,590,319	3,091,049
Cash held on behalf of brokerage clients	86,596,700	62,006,800	57,521,637
Bank balances	23,259,591	22,374,264	25,285,815
Other non-current assets	500,000	900,000	–
Total maximum credit risk exposure	243,846,747	267,583,514	304,723,726

The Company

	As at 31 December		
	2016	2017	2018
Accounts receivable	6,970	–	–
Other receivables and prepayments	7,058,422	4,162,671	8,183,009
Available-for-sale financial assets	4,025,001	5,919,403	–
Financial assets at fair value through profit or loss	–	–	450,611
Financial assets measured at amortized cost	–	–	5,690,016
Bank balances	1,408,426	97,211	159,133
Total maximum credit risk exposure	12,498,819	10,179,285	14,482,769

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations

The Group's and the Company's maximum credit risk exposure without taking into account any collateral and other credit enhancements, as categorised by geographical area:

The Group

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2016			
Refundable deposits	5,738,733	22,129	5,760,862
Accounts receivable	1,288,264	178,411	1,466,675
Other receivables and prepayments	2,570,038	49,943	2,619,981
Margin accounts receivable	54,264,348	1,604,728	55,869,076
Available-for-sale financial assets	22,820,690	–	22,820,690
Financial assets held under resale agreements	17,731,941	–	17,731,941
Financial assets at fair value through profit or loss	25,437,148	72,058	25,509,206
Derivative financial assets	5,707	–	5,707
Clearing settlement funds	1,704,885	1,433	1,706,318
Cash held on behalf of brokerage clients	82,480,132	4,116,568	86,596,700
Bank balances	22,614,045	645,546	23,259,591
Other non-current assets	500,000	–	500,000
Total maximum credit risk exposure	237,155,931	6,690,816	243,846,747

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2017			
Refundable deposits	5,440,500	18,843	5,459,343
Accounts receivable	1,335,892	189,545	1,525,437
Other receivables and prepayments	3,759,337	34,602	3,793,939
Margin accounts receivable	53,821,523	1,917,194	55,738,717
Available-for-sale financial assets	30,141,901	–	30,141,901
Financial assets held under resale agreements	44,053,326	–	44,053,326
Financial assets at fair value through profit or loss	38,923,028	69,730	38,992,758
Derivative financial assets	6,710	–	6,710
Clearing settlement funds	2,589,623	696	2,590,319
Cash held on behalf of brokerage clients	58,237,145	3,769,655	62,006,800
Bank balances	21,955,567	418,697	22,374,264
Other non-current assets	900,000	–	900,000
Total maximum credit risk exposure	261,164,552	6,418,962	267,583,514

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations (Continued)

The Group (Continued)

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2018			
Refundable deposits	5,817,786	12,826	5,830,612
Accounts receivable	1,091,144	146,446	1,237,590
Other receivables and prepayments	3,487,701	27,204	3,514,905
Margin accounts receivable	42,048,374	1,058,601	43,106,975
Financial assets held under resale agreements	66,079,891	–	66,079,891
Financial assets at fair value through profit or loss	65,918,046	524,504	66,442,550
Derivative financial assets	453,915	–	453,915
Financial assets measured at amortized cost	10,162,144	–	10,162,144
Financial assets at fair value through other comprehensive income	21,996,643	–	21,996,643
Clearing settlement funds	3,091,049	–	3,091,049
Cash held on behalf of brokerage clients	53,014,642	4,506,995	57,521,637
Bank balances	23,225,578	2,060,237	25,285,815
Total maximum credit risk exposure	296,386,913	8,336,813	304,723,726

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations (Continued)

The Company

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2016			
Accounts receivable	6,970	–	6,970
Other receivables and prepayments	7,058,422	–	7,058,422
Available-for-sale financial assets	4,025,001	–	4,025,001
Bank balances	1,408,426	–	1,408,426
Total maximum credit risk exposure	12,498,819	–	12,498,819

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2017			
Other receivables and prepayments	4,162,671	–	4,162,671
Available-for-sale financial assets	5,919,403	–	5,919,403
Bank balances	97,211	–	97,211
Total maximum credit risk exposure	10,179,285	–	10,179,285

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2018			
Other receivables and prepayments	8,183,009	–	8,183,009
Financial assets at fair value through profit or loss	450,611	–	450,611
Financial assets measured at amortized cost	5,690,016	–	5,690,016
Bank balances	159,133	–	159,133
Total maximum credit risk exposure	14,482,769	–	14,482,769

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Credit rating

The Group adopts a credit rating system to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referenced from major rating institutions in which debt issuers are located. The carrying amounts of debt securities at the end of the Relevant Periods are categorised by the following rating distribution:

The Group

	As at 31 December		
	2016	2017	2018
Rating			
Long-term bonds			
AAA	2,803,186	9,043,860	43,640,380
From A to AA+	17,325,160	16,433,148	21,542,145
From B- to BBB	7,500	82,500	99,479
Non-rated(1)	6,622,174	20,074,928	16,877,166
Sub-total	26,758,020	45,634,436	82,159,170
Short-term bonds			
AAA	–	–	339,094
From A to AA+	–	–	229,985
A-1	1,525,775	3,088,560	1,890,302
Non-rated(1)	6,562,665	9,305,548	3,250,054
Sub-total	8,088,440	12,394,108	5,709,435
Total	34,846,460	58,028,544	87,868,605

The Company

	As at 31 December		
	2016	2017	2018
Rating			
Long-term bonds			
From A to AA+	25,001	55,003	425,741
From B- to BBB	–	–	24,870
Total	25,001	55,003	450,611

(1) Non-rated financial assets mainly represent debts instruments issued by the MOF, the PBOC, policy banks, private placed bonds, and super & short-term commercial papers.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Provision matrix

The following table provides information about the Group's ECLs for financial assets as at 31 December 2018:

	Impairment loss allowance as at 31 December 2018				
	12-month ECL	Lifetime ECL–not credit impaired	Lifetime ECL–credit impaired	Total	ECL rate
Cash and bank balances	6,155	–	–	6,155	0.02%
Margin accounts receivable	84,265	–	–	84,265	0.20%
Accounts receivable	–	33,689	125,145	158,834	11.37%
Financial assets held under resale agreements	188,895	18,466	419,732	627,093	0.94%
Financial assets measured at amortized cost	6,399	–	180,908	187,307	1.81%
Financial assets at fair value through other comprehensive income	19,780	4,739	150,000	174,519	0.79%
Other receivables and prepayments	405	25,238	197,686	223,329	5.50%
Total	305,899	82,132	1,073,471	1,461,502	0.84%

(b) Liquidity risk

Liquidity risk is the risk that the Group may face if the Group fails to acquire sufficient funds in time with reasonable cost to repay its debts due, perform other payment obligations and satisfy capital requirements in normal business operations.

In managing its liquidity risks, the Group considers its short, medium and long-term funding needs and liquidity management requirements, and reinforce the management of both the total amount and the structure of high-quality liquid assets through continuously improving the management system of its liquidity reserve, so as to maintain a sufficient liquidity reserve. The Group maintains adequate cash and cash equivalents and continuously monitors and compares cash flow forecast and actual cash flows. The Group also adopts a risk indicator analysis method to manage its overall liquidity risk. Through the analysis of key risk indicators, such as liquidity coverage ratio, net stable funding ratio, liquidity gap, and asset and liability concentration, the Group assesses and measures its overall liquidity risk status.

For liquidity risks, the Group has primarily adopted the following measures:

- Formulated a comprehensive capital plan to maintain a sufficient liquidity reserve;
- Expanded the scope of cooperation of financial institutions, improved debt financing management capabilities and diversified liquidity management tools;
- Enhanced the dynamic monitoring of liquidity risk, maintained the tracking and assessment of information such as liquidity monitoring indicators, cash flow gap, liquidity reserve and its short-term financing capabilities;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

- Carried out stress testing of liquidity risk, improved the ability to measure liquidity shock and put forward effective measures; and
- Improved the capability of reporting and dealing with liquidity risk contingencies through conducting emergency drills for liquidity risk to enhance the ability to respond to liquidity crisis.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The following tables show the details of the Group's contractual cash flow from its undiscounted financial liabilities (including interest payments computed using contractual rates or, if floating, based on rates as of 31 December) for the remainder of the contract as well as the earliest date the Group may be required to pay:

The Group

	As at 31 December 2016						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Financial liabilities							
Loans and borrowings	555,193	–	255,418	5,625	16,875	345,000	622,918
Short-term debt instruments issued	3,211,596	–	200,610	11,827	3,091,915	–	3,304,352
Placements from other financial institutions	3,000,000	–	1,001,205	1,518,948	507,479	–	3,027,632
Financial liabilities at fair value through profit or loss	1,054,142	–	196,467	–	857,675	–	1,054,142
Accounts payable to brokerage clients	89,704,415	89,704,415	–	–	–	–	89,704,415
Other payables and accruals	16,073,351	9,980,267	40,816	136,217	6,228,266	–	16,385,566
Financial assets sold under repurchase agreements	34,777,733	–	21,511,952	7,007,210	7,003,142	1,354,939	36,877,243
Derivative financial liabilities	19,998	10,700	2,047	4,388	2,863	–	19,998
Long-term bonds	62,329,997	–	6,826	2,668,451	6,949,409	63,157,307	72,781,993
Other non-current liabilities	2,384,067	–	–	–	–	2,605,188	2,605,188
Total	213,110,492	99,695,382	23,215,341	11,352,666	24,657,624	67,462,434	226,383,447

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Group (Continued)

	As at 31 December 2017							
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Financial liabilities								
Loans and borrowings	2,757,344	–	706,588	9,114	1,491,370	723,912	–	2,930,984
Short-term debt instruments issued	15,245,333	–	2,631,012	9,618,256	3,859,773	–	–	16,109,041
Placements from other financial institutions	7,900,000	–	3,903,631	2,563,575	1,538,145	–	–	8,005,351
Financial liabilities at fair value through profit or loss	2,648,100	–	–	–	2,648,100	–	–	2,648,100
Accounts payable to brokerage clients	63,628,770	63,628,770	–	–	–	–	–	63,628,770
Other payables and accruals	13,522,667	11,102,962	31,801	197,966	2,119,273	–	–	13,452,002
Financial assets sold under repurchase agreements	64,659,492	–	44,299,382	1,531,912	12,377,234	8,028,252	–	66,236,780
Derivative financial liabilities	32,252	2,174	428	3,469	26,182	–	–	32,253
Long-term bonds	65,667,002	–	–	501,050	19,035,714	54,947,860	635,123	75,119,747
Other non-current liabilities	1,205,888	–	–	–	–	1,207,067	–	1,207,067
Total	237,266,848	74,733,906	51,572,842	14,425,342	43,095,791	64,907,091	635,123	249,370,095

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Group (Continued)

	As at 31 December 2018							
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Financial liabilities								
Loans and borrowings	1,368,385	–	720,492	9,053	27,860	678,274	–	1,435,679
Short-term debt instruments issued	13,220,147	–	7,630,057	5,665,948	351,533	–	–	13,647,538
Placements from other financial institutions	11,618,941	–	6,838,475	1,538,146	3,344,371	–	–	11,720,992
Financial liabilities at fair value through profit or loss	2,822,458	–	2,787,870	–	–	44,017	–	2,831,887
Accounts payable to brokerage clients	60,270,562	60,275,347	–	–	–	–	–	60,275,347
Other payables and accruals	12,821,901	10,678,098	37,834	5,740	2,139,152	–	–	12,860,824
Financial assets sold under repurchase agreements	79,171,880	–	61,634,526	2,043,005	12,397,788	4,729,461	–	80,804,780
Derivative financial liabilities	456,300	–	12,914	14,699	20,832	407,855	–	456,300
Long-term bonds	87,899,174	–	–	752,196	25,181,621	71,958,557	522,500	98,414,874
Other non-current liabilities	137,500	–	–	–	–	137,500	–	137,500
Total	269,787,248	70,953,445	79,662,168	10,028,787	43,463,157	77,955,664	522,500	282,585,721

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Company

	As at 31 December 2016						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Financial liabilities							
Other payables and accruals	2,139,275	2,139,275	–	–	–	–	2,139,275
Long-term bonds	12,469,301	–	–	101,625	304,875	14,012,068	14,418,568
Total	14,608,576	2,139,275	–	101,625	304,875	14,012,068	16,557,843

	As at 31 December 2017						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Financial liabilities							
Loans and borrowings	2,051,000	–	–	9,114	1,491,370	723,912	2,224,396
Other payables and accruals	2,124	2,124	–	–	–	–	2,124
Financial assets sold under repurchase agreements	500,000	–	–	–	524,938	–	524,938
Long-term bonds	12,476,220	–	–	101,625	304,875	14,012,068	14,418,568
Total	15,029,344	2,124	–	110,739	2,321,183	14,735,980	17,170,026

	As at 31 December 2018						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Financial liabilities							
Loans and borrowings	651,800	–	1,056	9,054	27,860	678,274	716,244
Other payables and accruals	362,783	362,783	–	–	–	–	362,783
Financial assets sold under repurchase agreements	500,000	–	–	–	–	507,083	507,083
Long-term bonds	19,476,138	–	–	–	2,739,605	19,510,033	22,249,638
Total	20,990,721	362,783	1,056	9,054	2,767,465	20,695,390	23,835,748

(c) Market risk

Market risk refers to the risk resulting from the adverse effects on the Group's revenue or the value of financial instruments held by us due to market price changes of the equity securities, fixed-

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

income securities and various derivative financial instruments held by the Group. The Group also faces foreign exchange rate risks in currencies such as the Renminbi, US dollar ("USD") and HK dollar. Market risk management aims to control the market risk within an acceptable range so as to maximise risk-adjusted returns. The Group conducts dynamic monitoring and grade warnings of risk indicators to ensure relevant countermeasures can be undertaken in a timely manner. The Group also conducts stress tests regularly to measure changes of various risk control indicators and operating indicators under different stress situations.

(i) Interest rate risk

Interest rate risk is the risk that changes in market interest rates will affect the Group's operation performance, financial position and cash flows. The Group's interest-bearing assets mainly include cash and bank balances, clearing settlement funds, margin accounts receivable, financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets held under resale agreements, refundable deposits and financial assets at fair value through other comprehensive income; interest-bearing liabilities mainly include loans and borrowings, short-term debt instruments issued, placements from other financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, accounts payable to brokerage clients and long-term bonds.

For financial instruments held on the balance sheet date that expose the Group to fair value interest rate risk, the Group applies interest rate repricing exposure analysis and sensitivity analysis as the primary approach for monitoring interest rate risk. Sensitivity analysis measures the effect of any reasonable and possible changes in the interest rate on the net profits and shareholders' equity with all other variables held constant.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The following tables indicate the interest rate risk of the Group as at the end of the Relevant Periods. In the tables, financial assets and liabilities as at the end of the Relevant Periods are presented by the expected next repricing date or maturity date, whichever is earlier:

The Group

	As at 31 December 2016					
	Less than 3 month	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest-bearing	Total
Financial assets						
Available-for-sale financial assets	569,602	3,361,337	11,019,551	1,047,644	24,596,715	40,594,849
Financial assets held under resale agreements	15,079,894	2,370,352	281,695	–	–	17,731,941
Refundable deposits	1,102,874	–	–	–	4,657,988	5,760,862
Accounts receivable	–	–	–	–	1,466,675	1,466,675
Other receivables and prepayments	220,000	–	–	–	242,032	462,032
Margin accounts receivable	30,964,438	24,904,638	–	–	–	55,869,076
Financial assets at fair value through profit or loss	1,260,443	6,081,087	16,465,642	1,754,606	9,374,505	34,936,283
Derivative financial assets	–	–	–	–	5,707	5,707
Clearing settlement funds	1,706,318	–	–	–	–	1,706,318
Cash held on behalf of brokerage clients	83,666,700	2,930,000	–	–	–	86,596,700
Cash and bank balances	22,631,738	613,634	–	–	14,714	23,260,086
Other non-current assets	–	–	500,000	–	–	500,000
Total	157,202,007	40,261,048	28,266,888	2,802,250	40,358,336	268,890,529
Financial liabilities						
Loans and borrowings	(255,193)	–	(300,000)	–	–	(555,193)
Short-term debt instruments issued	(211,596)	(3,000,000)	–	–	–	(3,211,596)
Placements from other financial institutions	(2,500,000)	(500,000)	–	–	–	(3,000,000)
Accounts payable to brokerage clients	(71,122,731)	–	–	–	(18,581,684)	(89,704,415)
Other payables and accruals	(132,759)	–	–	–	(15,755,076)	(15,887,835)
Financial liabilities at fair value through profit or loss	(196,467)	(857,675)	–	–	–	(1,054,142)
Financial assets sold under repurchase agreements	(27,381,397)	(6,195,336)	(1,201,000)	–	–	(34,777,733)
Derivative financial liabilities	–	–	–	–	(19,998)	(19,998)
Long-term bonds	(2,005,272)	(4,300,857)	(56,023,868)	–	–	(62,329,997)
Other non-current liabilities	–	–	–	–	(2,310,376)	(2,310,376)
Total	(103,805,415)	(14,853,868)	(57,524,868)	–	(36,667,134)	(212,851,285)
Net interest rate risk exposure	53,396,592	25,407,180	(29,257,980)	2,802,250	3,691,202	56,039,244

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Group (Continued)

	As at 31 December 2017					
	Less than 3 month	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest-bearing	Total
Financial assets						
Available-for-sale financial assets	669,253	5,713,568	18,697,281	2,201,165	19,706,456	46,987,723
Financial assets held under resale agreements	15,837,924	17,732,797	10,482,605	–	–	44,053,326
Refundable deposits	1,146,274	–	–	–	4,313,069	5,459,343
Accounts receivable	–	–	–	–	1,525,437	1,525,437
Other receivables and prepayments	–	500,000	–	–	533,951	1,033,951
Margin accounts receivable	12,815,291	42,923,426	–	–	–	55,738,717
Financial assets at fair value through profit or loss	1,867,248	11,270,404	23,842,714	1,909,982	10,472,171	49,362,519
Derivative financial assets	–	–	–	–	6,710	6,710
Clearing settlement funds	2,590,319	–	–	–	–	2,590,319
Cash held on behalf of brokerage clients	60,606,800	1,400,000	–	–	–	62,006,800
Cash and bank balances	20,398,574	1,964,476	–	–	11,646	22,374,696
Other non-current assets	–	–	900,000	–	–	900,000
Total	115,931,683	81,504,671	53,922,600	4,111,147	36,569,440	292,039,541
Financial liabilities						
Loans and borrowings	(706,344)	(1,400,000)	(651,000)	–	–	(2,757,344)
Short-term debt instruments issued	(11,567,856)	(3,677,477)	–	–	–	(15,245,333)
Placements from other financial institutions	(6,400,000)	(1,500,000)	–	–	–	(7,900,000)
Accounts payable to brokerage clients	(46,844,708)	–	–	–	(16,784,062)	(63,628,770)
Other payables and accruals	(133,126)	–	–	–	(13,223,452)	(13,356,578)
Financial liabilities at fair value through profit or loss	–	(2,648,100)	–	–	–	(2,648,100)
Financial assets sold under repurchase agreements	(45,409,492)	(11,500,000)	(7,750,000)	–	–	(64,659,492)
Derivative financial liabilities	–	–	–	–	(32,252)	(32,252)
Long-term bonds	–	(16,975,941)	(48,191,061)	(500,000)	–	(65,667,002)
Other non-current liabilities	–	–	–	–	(1,117,079)	(1,117,079)
Total	(111,061,526)	(37,701,518)	(56,592,061)	(500,000)	(31,156,845)	(237,011,950)
Net interest rate risk exposure	4,870,157	43,803,153	(2,669,461)	3,611,147	5,412,595	55,027,591

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Group (Continued)

	As at 31 December 2018					
	Less than 3 month	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest-bearing	Total
Financial assets						
Financial assets measured at amortized cost	965,826	4,405,359	4,790,959	–	–	10,162,144
Financial assets at fair value through other comprehensive income	824,058	2,449,996	14,981,880	3,740,709	9,115,967	31,112,610
Financial assets held under resale agreements	31,968,107	14,509,797	19,601,987	–	–	66,079,891
Refundable deposits	1,446,758	–	–	–	4,383,854	5,830,612
Accounts receivable	–	–	–	–	1,237,590	1,237,590
Other receivables and prepayments	–	–	–	–	3,523,909	3,523,909
Margin accounts receivable	11,915,358	31,191,617	–	–	–	43,106,975
Financial assets at fair value through profit or loss	2,635,529	7,025,361	47,284,754	8,926,319	27,435,633	93,307,596
Derivative financial assets	–	–	–	–	453,915	453,915
Clearing settlement funds	3,091,049	–	–	–	–	3,091,049
Cash held on behalf of brokerage clients	54,719,653	2,801,984	–	–	–	57,521,637
Cash and bank balances	22,442,616	2,839,999	–	–	3,799	25,286,414
Total	130,008,954	65,224,113	86,659,580	12,667,028	46,154,667	340,714,342
Financial liabilities						
Loans and borrowings	(717,585)	–	(650,800)	–	–	(1,368,385)
Short-term debt instruments issued	(12,881,132)	(339,015)	–	–	–	(13,220,147)
Placements from other financial institutions	(8,300,000)	(3,318,941)	–	–	–	(11,618,941)
Accounts payable to brokerage clients	(42,236,209)	–	–	–	(18,034,353)	(60,270,562)
Other payables and accruals	(133,494)	–	–	–	(14,924,832)	(15,058,326)
Financial liabilities at fair value through profit or loss	(2,775,086)	–	–	–	(47,372)	(2,822,458)
Financial assets sold under repurchase agreements	(63,426,090)	(11,445,790)	(4,300,000)	–	–	(79,171,880)
Derivative financial liabilities	–	–	–	–	(456,300)	(456,300)
Long-term bonds	(37,301)	(22,294,055)	(65,067,818)	(500,000)	–	(87,899,174)
Other non-current liabilities	–	–	–	–	(139,515)	(139,515)
Total	(130,506,897)	(37,397,801)	(70,018,618)	(500,000)	(33,602,372)	(272,025,688)
Net interest rate risk exposure	(497,943)	27,826,312	16,640,962	12,167,028	12,552,295	68,688,654

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Company

	As at 31 December 2016					
	Less than 3 month	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest-bearing	Total
Financial assets						
Available-for-sale financial assets	–	850,000	2,375,001	–	1,729,411	4,954,412
Accounts receivable	–	–	–	–	6,970	6,970
Other receivables and prepayments	–	2,650,000	4,374,767	–	15,157	7,039,924
Cash and bank balances	1,408,426	–	–	–	–	1,408,426
Total	1,408,426	3,500,000	6,749,768	–	1,751,538	13,409,732
Financial liabilities						
Long-term bonds	–	–	(12,469,301)	–	–	(12,469,301)
Other payables and accruals	–	–	–	–	(2,139,275)	(2,139,275)
Total	–	–	(12,469,301)	–	(2,139,275)	(14,608,576)
Net interest rate risk exposure	1,408,426	3,500,000	(5,719,533)	–	(387,737)	(1,198,844)

	As at 31 December 2017					
	Less than 3 month	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest-bearing	Total
Financial assets						
Available-for-sale financial assets	1,150,000	1,480,000	3,289,403	–	1,316,853	7,236,256
Other receivables and prepayments	1,620,000	50,000	–	2,391,683	11,638	4,073,321
Cash and bank balances	97,211	–	–	–	–	97,211
Total	2,867,211	1,530,000	3,289,403	2,391,683	1,328,491	11,406,788
Financial liabilities						
Loans and borrowings	–	(1,400,000)	(651,000)	–	–	(2,051,000)
Other payables and accruals	–	–	–	–	(2,124)	(2,124)
Financial assets sold under repurchase agreements	–	(500,000)	–	–	–	(500,000)
Long-term bonds	–	–	(12,476,220)	–	–	(12,476,220)
Total	–	(1,900,000)	(13,127,220)	–	(2,124)	(15,029,344)
Net interest rate risk exposure	2,867,211	(370,000)	(9,837,817)	2,391,683	1,326,367	(3,622,556)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Company (Continued)

	As at 31 December 2018					
	Less than 3 month	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest-bearing	Total
Financial assets						
Financial assets measured at amortized cost	–	2,932,317	2,757,699	–	–	5,690,016
Other receivables and prepayments	330,000	2,500,000	5,300,000	–	53,009	8,183,009
Financial assets at fair value through profit or loss	–	24,870	30,002	395,739	3,985,856	4,436,467
Cash and bank balances	159,133	–	–	–	37	159,170
Total	489,133	5,457,187	8,087,701	395,739	4,038,902	18,468,662
Financial liabilities						
Loans and borrowings	(1,000)	–	(650,800)	–	–	(651,800)
Other payables and accruals	–	–	–	–	(355,717)	(355,717)
Financial assets sold under repurchase agreements	–	–	(500,000)	–	–	(500,000)
Long-term bonds	–	(1,999,105)	(17,477,033)	–	–	(19,476,138)
Total	(1,000)	(1,999,105)	(18,627,833)	–	(355,717)	(20,983,655)
Net interest rate risk exposure	488,133	3,458,082	(10,540,132)	395,739	3,683,185	(2,514,993)

Sensitivity analysis

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the Relevant Periods, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's and the Company's profit after tax and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

The Group

	Sensitivity of profit after tax		
	As at 31 December		
	2016	2017	2018
Move in yield curve			
Up 25 basis points	(8,475)	(109,322)	(254,997)
Down 25 basis points	9,634	113,336	262,770

	Sensitivity of equity		
	As at 31 December		
	2016	2017	2018
Move in yield curve			
Up 25 basis points	(34,129)	(190,456)	(358,112)
Down 25 basis points	35,745	196,347	368,701

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

Sensitivity analysis (Continued)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and equity that would arise assuming that the change in interest rates had occurred at the end of the Relevant Periods and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the Relevant Periods.

In respect of the exposure to cash flow interest rate risk arising from floating rate non-instruments held by the Group, the impact on the Group's profit after tax and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(ii) Foreign currency risk

Foreign currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation and monitor of foreign exchange rates. The Group adopts sensitivity analysis to measure and monitor currency risk.

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the RMB against the US dollar, HKD and other currencies at the end of the Relevant Periods, under the assumption of the foreign exchange rate changes within the period from the end of the Relevant Periods to next whole year, would have increased/(decreased) the Group' s equity and profit after tax by the amount shown below, whose effect is in RMB and translated using the spot rate at the end of the Relevant Periods:

The Group

	Sensitivity of equity		
	As at 31 December		
	2016	2017	2018
Currency			
USD	(35,479)	(28,908)	(19,519)
HKD	(146,087)	(171,607)	(256,420)
Other currencies	(2,229)	2,987	(5,881)

	Sensitivity of profit after tax		
	As at 31 December		
	2016	2017	2018
Currency			
USD	(35,479)	(28,908)	(19,519)
HKD	(146,087)	(171,607)	(256,420)
Other currencies	(2,229)	2,987	(5,881)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Foreign currency risk (Continued)

A 10% weakening of the RMB against the USD, HKD and other currencies at the end of the Relevant Periods would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the Relevant Periods. The analysis excludes translation differences arising from translation of foreign currency financial statements.

(iii) Other price risk

Other price risks refer to the risk that the fair value or future cash flows of any equity securities and funds held by the Group will be affected by changes in market price factors (other than interest rates and foreign exchange rates). The Group mainly invests in stocks listed on stock exchanges and funds and the maximum market price risk is determined by fair value of financial instruments held by the Group.

Assuming that the market price of the financial instruments mentioned above increases or decreases by 10%, with all other variables held constant, the effect of these balance sheet assets on the Group shareholders' equity and net profit is listed as follows:

The Group

	Sensitivity of profit after tax		
	As at 31 December		
	2016	2017	2018
Increase by 10%	690,399	712,698	1,134,646
Decrease by 10%	(690,399)	(712,698)	(1,134,646)

	Sensitivity of equity		
	As at 31 December		
	2016	2017	2018
Increase by 10%	1,145,726	1,088,014	1,396,091
Decrease by 10%	(1,145,726)	(1,088,014)	(1,396,091)

(d) Capital management

The Group's primary objectives when managing capital are to safeguard its continued operations, so that it can continue to provide returns for shareholders, by pricing products and services according to the level of risk and by securing access to finance at a reasonable cost.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

The Group's capital structure is regularly reviewed and managed to achieve an optimal structure and return for shareholders. Factors for the Group's consideration include: its future funding requirements, capital efficiency, actual and expected profitability, expected cash flows, expected capital expenditure and risk level. Adjustments are made to the capital structure in light of changes in the factors mentioned above affecting the Group.

On 16 June 2016, the CSRC issued the Measures for the Administration of Risk Control Indicators of Securities Companies (2016 revision) and the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies, which came into effect on 1 October 2016 to revise the risk control indicators and criteria that securities companies must continue monitoring. Therefore, the Group is required to continuously meet the following key criteria for risk control indicators:

(i) Risk Coverage Ratio (Net capital/Total risk capital reserves × 100%) shall be no less than 100%;

(ii) Capital Leverage Ratio (Core net capital/Total balance sheet & off-balance sheet assets × 100%) shall be no less than 8%;

(iii) Liquidity Coverage Ratio (High quality liquid assets/Total net cash outflows over the next 30 days × 100%) shall be no less than 100%;

(iv) Net Stable Funding Ratio (Available amount of stable funding/Required amount of stable funding × 100%) shall be no less than 100%.

59 FAIR VALUE INFORMATION

(a) Fair value of financial instruments

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Financial assets including cash and bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from other financial institutions and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair values.

(ii) Financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, derivatives and financial assets at fair value through other comprehensive income are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active open markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(a) Fair value of financial instruments (Continued)

(iii) Accounts receivable, other receivables and prepayments, margin accounts receivable, and accounts payable to brokerage clients mainly are within one year. Accordingly, the carrying amounts approximates the fair values.

(b) Fair value of other financial instruments (carried at other than fair value)

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values as at 31 December 2016, 2017 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

The Group

Carrying amount

	As at 31 December		
	2016	2017	2018
Financial liabilities			
—Long-term bonds	62,329,997	65,667,002	87,899,174

Fair value

	As at 31 December 2016			
	Level I	Level II	Level III	Total
Financial liabilities				
—Long-term bonds	–	47,714,141	13,554,542	61,268,683

	As at 31 December 2017			
	Level I	Level II	Level III	Total
Financial liabilities				
—Long-term bonds	–	49,483,567	14,470,224	63,953,791

	As at 31 December 2018			
	Level I	Level II	Level III	Total
Financial liabilities				
—Long-term bonds	–	75,456,923	12,900,391	88,357,314

The Company

Carrying amount

	As at 31 December		
	2016	2017	2018
Financial liabilities			
—Long-term bonds	12,469,301	12,476,220	19,476,138

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(b) Fair value of other financial instruments (carried at other than fair value) (Continued)

The Company (Continued)

Fair value

	As at 31 December 2016			
	Level I	Level II	Level III	Total
Financial liabilities				
—Long-term bonds	–	12,200,402	–	12,200,402

	As at 31 December 2017			
	Level I	Level II	Level III	Total
Financial liabilities				
—Long-term bonds	–	11,896,723	–	11,896,723

	As at 31 December 2018			
	Level I	Level II	Level III	Total
Financial liabilities				
—Long-term bonds	–	19,617,346	–	19,617,346

The fair values of the financial liabilities included in the level II above have been determined in accordance with generally accepted pricing models including discounted cash flow etc.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Group's statements of financial position approximate their fair values.

(c) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level I valuations: Fair value measured using only Level I inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level II valuations: Fair value measured using Level II inputs i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level III valuations: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyses financial instruments, measured at fair value at the end of the Relevant Periods, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The Group

	As at 31 December 2016			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
—Debt securities	13,365,112	11,667,522	–	25,032,634
—Equity securities	1,918,012	673,051	65,084	2,656,147
—Funds	6,549,167	–	–	6,549,167
—Hybrid instrument	38,359	–	–	38,359
Designated at fair value through profit or loss:				
—Hybrid instrument	–	–	490,785	490,785
—Wealth management products and others	–	64,191	105,000	169,191
Available-for-sale financial assets				
—Debt securities	4,572,219	4,712,463	–	9,284,682
—Equity securities	4,604,590	547,548	1,239,351	6,391,489
—Funds	510,269	–	–	510,269
—Wealth management products and others	137,781	9,495,034	14,775,593	24,408,408
Derivative financial assets	–	5,707	–	5,707
Total	31,695,509	27,165,516	16,675,813	75,536,838
Liabilities				
Financial liabilities at fair value through profit or loss	(857,675)	(196,467)	–	(1,054,142)
Derivative financial liabilities	–	(19,998)	–	(19,998)
Total	(857,675)	(216,465)	–	(1,074,140)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

The Group (Continued)

	As at 31 December 2017			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
—Debt securities	16,978,936	20,939,605	–	37,918,541
—Equity securities	1,881,273	492,524	100,652	2,474,449
—Funds	7,028,188	–	–	7,028,188
—Hybrid instrument	140,221	–	–	140,221
—Wealth management products and others	123,200	–	–	123,200
Designated at fair value through profit or loss:				
—Hybrid instrument	139,141	102,410	692,445	933,996
—Wealth management products and others	–	733,924	10,000	743,924
Available-for-sale financial assets				
—Debt securities	8,251,742	10,886,455	–	19,138,197
—Equity securities	4,068,341	–	509,890	4,578,231
—Funds	208,460	–	–	208,460
—Wealth management products and others	428,167	10,249,288	12,385,380	23,062,835
Derivative financial assets	–	6,710	–	6,710
Total	39,247,669	43,410,916	13,698,367	96,356,952
Liabilities				
Financial liabilities at fair value through profit or loss	(2,648,100)	–	–	(2,648,100)
Derivative financial liabilities	–	(32,252)	–	(32,252)
Total	(2,648,100)	(32,252)	–	(2,680,352)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

The Group (Continued)

	As at 31 December 2018			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
—Debt securities	20,529,257	39,587,220	–	60,116,477
—Equity securities	666,861	923,390	327,074	1,917,325
—Funds	16,049,861	144,276	–	16,194,137
—Hybrid instrument	1,044,139	9,701	1,107,280	2,161,120
—Wealth management products and others	5,081,666	5,798,399	2,038,472	12,918,537
Financial assets at fair value through other comprehensive income				
—Debt securities	5,125,808	16,870,835	–	21,996,643
—Equity securities	1,719,007	895,439	260,000	2,874,446
—Wealth management products and others	–	6,241,521	–	6,241,521
Derivative financial assets	–	453,915	–	453,915
Margin accounts receivable	–	1,058,601	–	1,058,601
Total	50,216,599	71,983,297	3,732,826	125,932,722
Liabilities				
Financial liabilities at fair value through profit or loss	(142,330)	(2,680,128)	–	(2,822,458)
Derivative financial liabilities	–	(456,300)	–	(456,300)
Total	(142,330)	(3,136,428)	–	(3,278,758)

The Company

	As at 31 December 2016			
	Level I	Level II	Level III	Total
Assets				
Available-for-sale financial assets				
—Debt securities	25,001	–	–	25,001
—Equity securities	–	–	4,465	4,465
—Funds	200,000	–	–	200,000
—Wealth management products and others	–	724,946	4,000,000	4,724,946
Total	225,001	724,946	4,004,465	4,954,412

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

The Company (Continued)

	As at 31 December 2017			
	Level I	Level II	Level III	Total
Assets				
Available-for-sale financial assets				
—Debt securities	55,003	–	–	55,003
—Equity securities	–	–	4,465	4,465
—Funds	–	–	–	–
—Wealth management products and others	335,000	963,388	5,878,400	7,176,788
Total	390,003	963,388	5,882,865	7,236,256

	As at 31 December 2018			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
—Hybrid instrument	–	–	54,871	54,871
—Equity securities	–	–	4,464	4,464
—Funds	303,741	–	–	303,741
—Wealth management products and others	1,210,583	2,432,298	430,510	4,073,391
Total	1,514,324	2,432,298	489,845	4,436,467

During the Relevant Periods, there were no significant transfers between Level I and Level II.

There were transfers between Level I and Level III during the Relevant Periods, as a result of the fact that several unlisted equity investments were listed in exchanges during the Relevant Periods. Other than the above, there was no significant transfer into or out of Level III during the Relevant Periods. The Group's policy is to recognize transfers between levels of fair value hierarchy at the end of the Relevant Periods in which they occur.

(i) Financial instruments in Level I

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the Relevant Periods. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level I. Instruments included in Level I comprise primarily securities traded on exchanges and fund investments traded through exchanges or fund management companies.

(ii) Financial instruments in Level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

(ii) Financial instruments in Level II (Continued)

where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

(iii) Valuation methods for specific investments

As at the end of the Relevant Periods, the Group's valuation methods for specific investments are as follows:

(1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the end of the Relevant Periods within bid-ask spread. If there is no quoted market price as at the end of the Relevant Periods, valuation techniques are used to determine the fair value.

(2) For exchange-listed investment funds, fair value is determined based on the closing price within bid-ask spread as at the end of the Relevant Periods or the most recent trading date. For unlisted open-end funds and wealth management products, fair value is determined by quoted price which is based on the net asset value as at the end of the Relevant Periods.

(3) For debt securities listed through exchanges, fair values are determined based on the closing price within bid-ask spread of the debt securities as at the end of the Relevant Periods.

(4) For debt securities traded through the inter-bank bond market and the OTC market, fair values are determined by valuation techniques.

(5) For futures traded through exchanges, fair value is determined based on the closing price of the futures as at the end of the Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

(iv) Financial instruments in Level III

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

The Group

	Held for trading assets	Designated at fair value through profit or loss assets	Available-for-sale financial assets	Total
As at 1 January 2016	94,718	629,393	6,816,408	7,540,519
Transfer out	(94,718)	–	(73,842)	(168,560)
Gains for the year	–	13,952	71,697	85,649
Changes in fair value recognized in other comprehensive income	–	–	325,533	325,533
Purchases	65,084	238,106	12,432,651	12,735,841
Sales and settlements	–	(285,666)	(3,557,503)	(3,843,169)
As at 31 December 2016	65,084	595,785	16,014,944	16,675,813
Total gains reclassified from other comprehensive income on disposal	–	–	71,697	71,697
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	–	(2,578)	(2,578)

	Held for trading assets	Designated at fair value through profit or loss assets	Available-for-sale financial assets	Total
As at 1 January 2017	65,084	595,785	16,014,944	16,675,813
Transfer out	(42,040)	–	(717,660)	(759,700)
Gains for the year	–	(88,012)	383,727	295,715
Changes in fair value recognized in other comprehensive income	–	–	(54,200)	(54,200)
Purchases	77,608	380,057	8,050,650	8,508,315
Sales and settlements	–	(185,385)	(10,782,191)	(10,967,576)
As at 31 December 2017	100,652	702,445	12,895,270	13,698,367
Total gains reclassified from other comprehensive income on disposal	–	–	383,727	383,727
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	(95,000)	(88,543)	(183,543)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

(iv) Financial instruments in Level III (Continued)

The Group (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	Total
As at 31 December 2017	803,097	12,895,270	–	13,698,367
Impact on initial application of IFRS 9	3,665,930	(12,895,270)	260,000	(8,969,340)
As at 1 January 2018	4,469,027	–	260,000	4,729,027
Transfer out	(124,575)	–	–	(124,575)
Gains for the year	137,769	–	–	137,769
Changes in fair value recognized in other comprehensive income	–	–	–	–
Purchases	2,181,871	–	–	2,181,871
Sales and settlements	(3,191,266)	–	–	(3,191,266)
As at 31 December 2018	3,472,826	–	260,000	3,732,826
Total gains for the year reclassified from other comprehensive income on disposal	–	–	–	–
Total gains for the year included in profit or loss for assets held at the end of the Relevant Periods	108,373	–	–	108,373

The Company

	Available-for-sale financial assets
As at 1 January 2016	4,465
Transfer out	–
Gains for the year	–
Changes in fair value recognized in other comprehensive income	–
Purchases	4,000,000
Sales and settlements	–
As at 31 December 2016	4,004,465
Total gains for the year reclassified from other comprehensive income on disposal	–
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

(iv) Financial instruments in Level III (Continued)

The Company (Continued)

	Available-for-sale financial assets
As at 1 January 2017	4,004,465
Transfer out	–
Gains for the year	238,766
Changes in fair value recognized in other comprehensive income	–
Purchases	4,188,400
Sales and settlements	(2,548,766)
As at 31 December 2017	5,882,865
Total gains for the year reclassified from other comprehensive income on disposal	–
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
As at 31 December 2017	5,882,865	–	5,882,865
Impact on initial application of IFRS 9	(5,882,865)	868,465	(5,014,400)
As at 1 January 2018	–	868,465	868,465
Transfer out	–	–	–
Gains for the year	–	3,788	3,788
Changes in fair value recognized in other comprehensive income	–	–	–
Purchases	–	470,095	470,095
Sales and settlements	–	(852,503)	(852,503)
As at 31 December 2018	–	489,845	489,845
Total gains for the year reclassified from other comprehensive income on disposal	–	–	–
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	4,311	4,311

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

59 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

(iv) Financial instruments in Level III (Continued)

For financial instruments in Level III, prices are determined using valuation techniques such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

Financial assets/liabilities	Fair value hierarchy	Key valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Stock with disposal restriction within a specific period and hybrid instrument	Level III	Option pricing model	Volatility	The higher the volatility, the greater the impact on the fair value
Wealth management products, structured entities, and preferred shares	Level III	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
Unlisted equity investment with limited marketability	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value

A movement of 10% of volatility, 0.25% (25bps) of the risk-adjusted discounted rate, and 10% of discount for lack of marketability would have increased or decreased profit for the year by 0.11% to 0.52% and equity by 0.04% to 0.09% during the Relevant Periods, which are not significant. This analysis assumes all other variables remain constant.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIODS ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle—various standards	1 January 2019
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Available for optional adoption/effective date deferred indefinitely.

Except as described below, the application of the new and revised IFRS will have no material impact on the Group's financial statements.

IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognized for all leases, subject to limited exceptions. It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

60 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIODS ENDED 31 DECEMBER 2018 (Continued)

IFRS 16, Leases (Continued)

When IFRS 16 is adopted in the future, it is expected that certain portion of lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

As set out in Note 53, total operating lease commitments of the Group in respect of rental payment as at 31 December 2018 amounted to RMB 951.03 million (31 December 2016: RMB 750.34 million, 31 December 2017: RMB 804.48 million). Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and with an interest expense on lease liabilities.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIODS ENDED 31 DECEMBER 2018 (Continued)

IFRS 16, Leases (Continued)

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

Based on the preliminary assessment, the initial adoption of IFRS 16 would have no significant impact on the Group's net assets and financial performance.

61 COMPANY LEVEL STATEMENTS OF CHANGES IN EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the Relevant Periods are set out below.

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Retained profits	Total
As at 1 January 2016	14,856,745	9,210,268	1,949,586	3,849,861	–	7,688,782	37,555,242
Changes in equity for 2016							
Profit for the year	–	–	–	–	–	3,322,934	3,322,934
Other comprehensive income	–	–	–	–	(3,722)	–	(3,722)
Total comprehensive income	–	–	–	–	(3,722)	3,322,934	3,319,212
Appropriation to surplus reserve	–	–	365,522	–	–	(365,522)	–
Dividends approved in respect of the previous year	5,199,861	–	–	–	–	(7,428,372)	(2,228,511)
As at 31 December 2016	20,056,606	9,210,268	2,315,108	3,849,861	(3,722)	3,217,822	38,645,943
As at 1 January 2017	20,056,606	9,210,268	2,315,108	3,849,861	(3,722)	3,217,822	38,645,943
Changes in equity for 2017							
Profit for the year	–	–	–	–	–	1,014,489	1,014,489
Other comprehensive income	–	–	–	–	8,156	–	8,156
Total comprehensive income	–	–	–	–	8,156	1,014,489	1,022,645
Appropriation to surplus reserve	–	–	111,594	–	–	(111,594)	–
Dividends approved in respect of the previous year	–	–	–	–	–	(2,005,661)	(2,005,661)
As at 31 December 2017	20,056,606	9,210,268	2,426,702	3,849,861	4,434	2,115,056	37,662,927

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

61 COMPANY LEVEL STATEMENTS OF CHANGES IN EQUITY (Continued)

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Retained profits	Total
As at 1 January 2018	20,056,606	9,210,268	2,426,702	3,849,861	4,434	2,115,056	37,662,927
Impact on initial application of IFRS 9	–	–	204	–	(4,434)	1,649	(2,581)
Adjusted balance as at 1 January 2018	20,056,606	9,210,268	2,426,906	3,849,861	–	2,116,705	37,660,346
Changes in equity for 2018							
Profit for the year	–	–	–	–	–	1,670,040	1,670,040
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	1,670,040	1,670,040
Issuance of ordinary shares	2,479,339	9,493,562	–	–	–	–	11,972,901
Appropriation to surplus reserve	–	–	167,004	–	–	(167,004)	–
Dividends approved in respect of the previous year	–	–	–	–	–	(1,126,797)	(1,126,797)
As at 31 December 2018	22,535,945	18,703,830	2,593,910	3,849,861	–	2,492,944	50,176,490

62 NON-ADJUSTING EVENTS AFTER THE RELEVANT PERIODS

(1) Profit distribution

Pursuant to the resolution of the general meeting of the shareholders dated 21 March 2019, the Company was approved to distribute cash dividends of RMB 0.50 (tax inclusive) per 10 shares to shareholders based on the total outstanding shares of 22,535,945 thousand shares, with total dividends amounting to RMB 1,126,797 thousand.

(2) Issuance of long-term bonds and structured notes

From 1 January 2019 to the reporting date, the Group issued long-term corporate bond and a number of structured notes, which borne coupon rate of fixed rate 0.10% plus floating rate to 11.20%. The issuance amount was approximate RMB 18 billion in total.

(3) Repayment of short-term bonds, long-term bonds and structured notes

From 1 January 2019 to the reporting date, the Group repaid short-term bond, long-term bonds and a number of structured notes which borne coupon rate of fixed rate 0.50% plus floating rate to 9.20%. The repayment amount was approximate RMB 24 billion in total.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to 31 December 2018.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

TAXATION

The following is a summary of certain PRC and Hong Kong tax consequences arising from ownership of H Shares by investors who purchase such H Shares in the **[REDACTED]** and hold the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions. This summary is based on the tax laws of the PRC and Hong Kong in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section does not address any aspect of taxation of the PRC or Hong Kong other than income tax, capital tax, value-added tax, stamp duty and estate duty. Prospective investors are advised to consult their own tax advisors regarding the PRC, Hong Kong and other tax consequences of investing in H Shares.

PRC TAXATION

Taxation on Dividends

Individual Investors

According to the Individual Income Tax Law, which was amended on August 31, 2018 and became effective on January 1, 2019, and the Implementation Regulations of the Individual Income Tax Law, which were amended on August 31, 2018 and became effective on January 1, 2019, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For foreign individuals who are not residents of the PRC, their receipts of dividends from a PRC company are normally subject to PRC withholding tax of 20% unless specifically exempted by the taxation authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Circular of the State Administration of Taxation on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (《國家税務總局關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》) which became effective on June 28, 2011, for any non-foreign invested enterprise in the PRC that launches its initial public offering in Hong Kong, its individual investors who are overseas residents are entitled to enjoy the relevant tax benefits provided under the tax treaty signed between the country of their residence and the PRC and under the tax arrangement between mainland China and Hong Kong (Macau). In general, the distribution of applicable dividends by a domestic non-foreign-invested enterprise whose shares are issued and listed in Hong Kong is subject to a withholding individual income tax of 10% and there is no need to apply to the tax authorities in the PRC to qualify for this rate. If the tax rate of 10% is not applicable, the relevant domestic non-foreign invested enterprise shall (1) return the excess amount of tax withheld if an income tax treaty at a tax rate of lower than 10% has been signed between the country of the relevant individual investor and the PRC after an application to enjoy the lower tax rate has been made by the relevant domestic non-foreign invested enterprise on behalf of such investor and approved by the competent taxation authority; (2) if the income tax treaty signed between the country of the relevant individual investor and the PRC provided a tax rate above 10% but below 20%, the relevant domestic non-foreign invested enterprise shall withhold the tax amount according to the tax rate under the treaty and completion of an application procedure will not be required; (3) if the country of the relevant individual investor has not signed any tax treaty with the PRC or under any other

circumstances, the relevant domestic non-foreign invested enterprise shall withhold the tax amount at the tax rate of 20%.

Enterprises

In accordance with the EIT Law, which was amended and became effective on February 24, 2017, and the Implementation Regulations of the EIT Law, which were promulgated on December 6, 2007 and became effective on January 1, 2008, a non-PRC resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income if such non-PRC resident enterprise does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation.

The Circular of the SAT on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《國家税務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》) (Guo Shui Han [2008] No. 897), which was issued and became effective on November 6, 2008, further clarified that a PRC resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares which are derived out of profit generated since January 1, 2008. A non-PRC resident enterprise shareholder who is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, by itself or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) (Guo Shui Han [2006] No. 884) signed between mainland China and Hong Kong on income tax matters on August 21, 2006, the PRC government may impose tax on dividends payable by a PRC company to Hong Kong residents (including natural persons and legal entities) subject to a maximum of 10% of the gross amount of dividends payable, or 5% for Hong Kong residents holding 25% or more of equity interest in such PRC company.

Tax Treaties

Non-PRC resident investors who reside in countries which have entered into treaties for the avoidance of double taxation with the PRC or reside in Hong Kong or Macau are entitled to preferential treatment of withholding tax on dividends to investors by PRC companies. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau respectively and has entered into such tax treaties with certain other countries, including but not limited to, Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise entitled to a preferential tax rate under a relevant income tax treaty or arrangement must apply to PRC tax authorities for refund of the difference between the amounts of tax withheld and the tax computed based on the treaty rate.

Taxation on Gains from Share Transfer

Individual Investors

In accordance with the Individual Income Tax Law and the Implementation Regulations of the Individual Income Tax Law, individuals are subject to individual income tax at the rate of 20% on gains from sales of equity interests in PRC resident enterprises. Under the Circular of the Ministry of Finance and the State Administration of Taxation on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998 and took effect on the same date, effective from January 1, 1997, gains of individuals from transfer of shares of listed enterprises continues to be exempted from individual income tax. In the Individual Income Tax Law and the Implementation Regulations of the Individual Income Tax Law, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from transfer of listed shares.

However, the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167), which was promulgated on December 31, 2009 and became effective on January 1, 2010, and the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》), which was promulgated and became effective on November 10, 2010, provide that such individuals' income from transfer of shares of listed companies on particular domestic exchange shall continue to be exempted from individual income tax, except for the shares of certain specified companies which are subject to sales limitation. As of the Latest Practicable Date, the aforesaid provision has not expressly provided that non-PRC resident individuals are subject to individual income tax for sales of shares of PRC resident enterprises listed on overseas stock exchanges. In actual operation, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from sales of shares of PRC resident enterprises listed on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H Shares.

Enterprises

In accordance with the EIT Law and the Implementation Regulations of the EIT Law, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of shares in a PRC resident enterprise, if such non-PRC resident enterprise does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

PRC Stamp Duty

Pursuant to the Provisional Regulations Concerning Stamp Duty (《印花稅暫行條例》) amended and coming into effect on January 8, 2011 and the Implementation Rules for the Provisional Regulations Concerning Stamp Duty amended and coming into effect on January 8, 2011, PRC stamp

duty is applicable to documents which have legal binding effect in the PRC and are governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside the PRC.

Estate Duty

The PRC currently has not imposed any estate duty.

Tax Policies for Shanghai-Hong Kong Stock Interconnection

On November 10, 2014, the CSRC and the SFC granted their approvals to Shanghai Stock Exchange, the Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited and Hong Kong Securities Clearing Company Limited for formal launch of the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets. Trading in shares under the Shanghai-Hong Kong Stock Interconnection kicked off formally on November 17, 2014. Pursuant to the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》)(Cai Shui [2014] No. 81), which was promulgated on October 31, 2014 and became effective on November 17, 2014:

From November 17, 2014 to November 16, 2017, gains on price difference from transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Interconnection are temporarily exempt from individual income tax. Pursuant to the Notice on Continuing to Implement the Relevant Individual Income Tax Policy regarding the Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (《關於繼續執行滬港股票市場交易互聯互通機制有關個人所得稅政策的通知》) (Cai Shui [2017] No.78), which was promulgated on November 1, 2017, temporarily exemption from individual income tax is extended to December 4, 2019. Dividends derived by mainland individual investors through investment into H shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Interconnection are subject to 20% of withholding income tax by H shares companies. Individual investors who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under China Securities Depository and Clearing Company Limited for tax credit. Dividends derived by mainland securities investment funds through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Interconnection are subject to individual income tax pursuant to provisions above.

Gains on price difference from transfer of shares derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Interconnection are credited to their total income and subject to enterprise income tax in accordance with laws. Dividends derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Interconnection are credited to their total income and subject to enterprise income tax in accordance with laws. Among them, dividends derived by mainland resident enterprises for holding H shares up to 12 consecutive months are exempt from enterprise income tax in accordance with laws. For dividends derived by mainland resident enterprises, there will be no withholding tax on dividends payable by H shares companies, and these enterprises are liable for tax reporting and payment. For the withholding tax on dividends payable by companies of non-H shares listed on the Hong Kong Stock Exchange, mainland corporate investors can apply for tax credit when reporting and paying enterprise income tax.

Mainland investors who deal with, inherit, and are bestowed upon with shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Interconnection are subject to stamp duties in accordance with current taxation requirements in Hong Kong. China Securities Depository

and Clearing Company Limited and HKSCC are authorized to levy stamp duties above on behalf of each other.

Tax Policies for Shenzhen-Hong Kong Stock Interconnection

On November 25, 2016, CSRC and SFC granted their approvals to Shenzhen Stock Exchange, the Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited and HKSCC for formal launch of the Shenzhen-Hong Kong Stock Interconnection. Trading in shares under the Shenzhen-Hong Kong Stock Interconnection kicked off on December 5, 2016. Pursuant to the Notice on Tax Policies for the Pilot Program of the Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》)(Cai Shui [2016] No. 127), which was promulgated on November 5, 2016 and became effective on December 5, 2016:

From December 5, 2016 to December 4, 2019, gains on price difference from transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Interconnection are temporarily exempt from individual income tax. Gains on price difference from transfer of shares derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Interconnection are credited to their total income and subject to enterprise income tax in accordance with laws. Dividends derived by mainland individual investors through investment into H shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Interconnection are subject to 20% of withholding individual income tax by H shares companies. Individual investors who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under China Securities Depository and Clearing Company Limited for tax credit. Dividends derived by mainland securities investment funds through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Interconnection are subject to individual income tax pursuant to provisions above.

Gains on dividends derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Interconnection are credited to their total income and subject to enterprise income tax in accordance with laws. Among them, dividends derived by mainland resident enterprises for holding H shares up to 12 consecutive months are exempt from enterprise income tax in accordance with laws. For such dividends derived by mainland enterprises, there will be no withholding tax on dividends payable by H shares companies, and these enterprises are liable for tax reporting and payment. For the withholding tax on dividends payable by companies of non-H shares listed on the Hong Kong Stock Exchange, mainland corporate investors can apply for tax credit when reporting and paying enterprise income tax.

Mainland investors, who deal with, inherit, and are bestowed upon with shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Interconnection are subject to stamp duties in accordance with current taxation requirements in Hong Kong. China Securities Depository and Clearing Company Limited and HKSCC are authorized to levy stamp duties above on behalf of each other.

MAJOR TAXATION OF THE COMPANY IN THE PRC

Income Tax

According to the EIT Law, enterprises and other organizations generating income within the territory of the PRC are subject to enterprise income tax at the rate of 25%.

Levying Value-added Tax in lieu of Business Tax

Pursuant to the Plan for the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax (《營業税改徵增值税試點方案》), which was promulgated and became effective on November 16, 2011, starting from January 1, 2012, the State started the taxation reform of levying value-added tax in lieu of business tax in certain regions (including Shanghai and Beijing) and in certain industries (including transportation and certain modern service industries) on a trial basis.

Pursuant to the Notice of Comprehensive Roll-out of the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax from the Ministry of Finance and the State Administration of Taxation (《財政部、國家税務總局關於全面推開營業税改徵增值税試點的通知》) (Cai Shui [2016] No. 36), which was promulgated on March 23, 2016 and became effective on May 1, 2016, starting from May 1, 2016, the aforesaid pilot practice for levying value-added tax in lieu of business tax will be implemented nationwide, and all business tax payers in the industries of construction, real estate, finance and consumer service will be included into the pilot practice and subject to value-added tax in lieu of business tax. Pursuant to the Implementing Measures for the Pilot Practice of Levying of Value-Added Tax in Lieu of Business Tax (《營業税改徵增值税試點實施辦法》) promulgated as an appendix thereto, enterprises and individuals engaged in sales of services, intangible assets or immovable properties shall be subject to valued-added tax in lieu of business tax at an applicable valued-added tax rate of 6% based on the various types of business they conduct.

Pursuant to the Notice on Clarifying Value-added Tax Policies on Finance, Real Estate Development and Education Assisted Services (《關於明確金融、房地產開發、教育輔助服務等增值税收政策的通知》) promulgated on December 21, 2016, taxpayer's purchasing various asset management products such as funds, trusts and wealth management products and holding them to maturity shall not be identified as the "transfer of financial products" stipulated in Cai Shui [2016] No. 36. For the value-added tax taxable transactions produced during the operation process of the asset management products, the manager of the asset management products shall be the taxpayer of the value-added tax. The aforementioned provisions came into effect on May 1, 2016.

According to the Supplemental Notice on Certain Issues in relation to Value-Added Tax Policies on Asset Management Products (《關於資管產品增值税政策有關問題的補充通知》) promulgated on January 6, 2017, starting from July 1, 2017 (inclusive), for the value-added tax taxable transactions produced during the operation process of the asset management products, the manager of the asset management products shall be the taxpayer of the value-added tax and pay the value-added tax pursuant to the prevailing rules. For the value-added tax taxable transactions produced during the operation process of the asset management products before July 1, 2017, it is not required to pay the unpaid value-added tax; if the value-added taxes are paid, the paid taxes shall be deducted from the value-added tax to be paid by the manager of the asset management products afterwards.

FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is Renminbi, which is still subject to foreign exchange control and is not freely exchangeable. The SAFE, under the authorization of the PBOC, is empowered with

the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The Foreign Exchange Control Regulations, which were promulgated on January 29, 1996 and became effective on April 1, 1996, classifies all international payments and transfers into current account items and capital account items. Most of the current account items are not subject to SAFE approval while capital account items are.

The Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), which were promulgated on June 20, 1996 and became effective on July 1, 1996, abolished all other restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, the PBOC announced that, effective on the same date, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will publish the closing price of a foreign currency such as the US dollar traded against the Renminbi in the interbank foreign exchange market on each trading day after the closing of the market, and will fix the central parity for the transaction of such foreign currency against Renminbi on the following trading day.

Since January 4, 2006, the PBOC improved the method of generating the central parity for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the interbank foreign exchange spot market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the interbank foreign exchange market.

The Foreign Exchange Control Regulations, which became effective on August 5, 2008, have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and grant extensive authority to the SAFE to strengthen its supervisory and administrative ability.

The Decision of the State Council on Canceling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》), which was issued and became effective on October 23, 2014, has canceled the administrative approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》), which was issued and became effective on December 26, 2014, a domestic enterprise shall register its overseas listing with the local branch of the SAFE at the place of its incorporation within 15 working days after the completion of offering of shares for its overseas listing. The proceeds from overseas listing of a domestic enterprise may be remitted to the domestic account or deposited in an overseas account. The proceeds shall be used in accordance with the document and other public disclosure documents.

The Notice of the SAFE on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《外管局關於進一步簡化和改進直接投資外匯管理政策的通知》)(Hui Fa [2015] No. 13), which was issued on February 13, 2015 and became effective on June 1, 2015, has canceled the foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, and instead requires the banks to review and carry out foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment directly. The SAFE and its branches implement indirect supervision over foreign exchange registration of direct investment via the banks.

In accordance with the Circular of the SAFE on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), which was issued and became effective on June 9, 2016, it is stipulated that the foreign exchange capital in the capital account which has been confirmed by the relevant polices subject to the Discretional Foreign Exchange Settlement (including funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%, which can be adjusted by the SAFE, when due, based on international income and expense conditions.

This appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to the operations and business of the Company. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III—Taxation and Foreign Exchange." This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain major differences between PRC and Hong Kong company laws, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) revised and took effect on March 11, 2018 (the "Constitution") and is composed of laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Judicial decisions do not constitute binding precedents. However, they may be used as judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) revised and took effect on March 15, 2015, the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC formulates and amends basic laws governing criminal and civil matters, state organs and other matters. The Standing Committee of the NPC formulates and amends other laws other than those required to be enacted by the NPC and supplements and amends any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments shall be not in conflict with the basic principles of such laws.

The State Council is the highest administrative authority of the PRC and has the power to formulates administrative regulations based on the Constitution and laws. The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual demands of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, the People's Bank of China, the National Audit Office, and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual demands of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if there are separate provisions by laws on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions. The people's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The people's governments of the provinces, autonomous regions and municipalities directly under the Central Government as well as cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people's governments of cities divided into districts and autonomous prefectures may only formulate local regulations in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local government regulations which have been enacted involving aspects other than those described above shall continue to be in effect.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations and separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts within the administrative areas of the provinces and the autonomous prefectures.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or separate regulations which have been approved by the standing committees of the people's congresses of any provinces, autonomous regions or municipalities directly under the Central Government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate rules and regulations of departments and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul any inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Resolutions of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, all laws or legal provisions that need to be further defined or supplemented shall be interpreted by the Standing Committee of the NPC or regulated in decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People's Court. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and

competent authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

PRC Judicial System

Under the Constitution and the PRC Law on the Organization of the People's Courts (《中華人民共和國人民法院組織法》) revised and passed on October 26, 2018 and to be implemented on January 1, 2019, the PRC judicial system is composed of the Supreme People's Court, the local People's Courts, military courts and other special People's Courts. The local People's Courts are composed of the primary People's Courts, the intermediate People's Courts and the higher People's Courts. The primary People's Courts may organize criminal division, civil division and economic division. The intermediate People's Courts have similar divisions to those of the primary People's Courts, and can set up other tribunals when necessary. The People's Court at a higher level shall supervise the judicial work carried out by the People's Court at a lower level. The Supreme People's Court is the highest judicial body in the PRC which is empowered to supervise the judicial administration of the People's Courts at all levels. The people's procuratorate shall also be entitled to exercise supervision rights over the judicial activities done by the People's Court.

The People's Courts apply a two-tier appellate system. A party may appeal against a judgment or ruling of a local People's Court to the People's Court at the next higher level. Second judgments or rulings given at the next higher level are final. First judgments or rulings of the Supreme People's Court are also final. However, if the Supreme People's Court or a People's Court at a higher level finds an error in a legally effective judgment which has been given in any People's Court at a lower level, or the president of the People's Court finds an error in a legally effective judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the People's Republic of China (《中華人民共和國民事訴訟法》) revised and passed on June 27, 2017 and took effect on July 1, 2017 (the "Civil Procedure Law") sets forth the criteria for instituting a civil action, the jurisdiction of the People's Courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by written agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either within the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or within the place of the object of the action and other place which has actual connection with the dispute, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and

enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a People's Court or an award made by an arbitration panel in the PRC, the other party may apply to the People's Court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law. A party seeking to enforce a judgment or ruling of a People's Court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. If a legally effective judgment or order made by a foreign court requires recognition and enforcement by a People's Court of the PRC, the party concerned may directly apply to the People's Court of the PRC for recognition and enforcement, or the foreign court concerned may request a People's Court for recognition and enforcement in accordance with the provisions of the international treaties entered into or acceded to by the PRC or under the principle of reciprocity. Upon the examination, the People's Court shall recognize the validity of the judgment or order if it considers that it will not contravene the basic principles of the laws of the PRC nor violates national sovereignty, security or social and public interests; if enforcement is required, a writ of enforcement will be issued in accordance with the relevant regulations. If the judgment or order contravenes the basic principles of the laws of the PRC or violates national sovereignty, security or social and public interests, the People's Court shall not recognize and enforce it.

THE COMPANY LAW OF THE PEOPLE'S REPUBLIC OF CHINA, THE SPECIAL REGULATIONS OF THE STATE COUNCIL ON THE OVERSEAS OFFERING AND LISTING OF SHARES BY JOINT STOCK LIMITED COMPANIES, AND THE MANDATORY PROVISIONS FOR ARTICLES OF ASSOCIATION OF COMPANIES TO BE LISTED OVERSEAS

A joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following three laws and regulations in China:

- the Company Law of the People's Republic of China (《中華人民共和國公司法》) (the "Company Law"), which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised as of December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018 respectively and the latest revision of which was implemented on October 26, 2018;
- the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the "Special Regulations"), which were promulgated by the State Council on August 4, 1994 pursuant to the relevant provisions of the Company Law, and are applicable to the overseas share subscription and listing of joint stock limited companies; and
- the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (the "Mandatory Provisions"), which were jointly promulgated by the former Securities Committee of the State Council and the State Economic Restructuring Commission on August 27, 1994, and stated the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in "Appendix V—Summary of Articles of Association."

Set out below is a summary of the provisions of the Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. Companies incorporated by promotion are companies with the total number of shares entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for part of the total number of shares of a company, and the remaining shares can be offered to the public or specific persons. If companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and administrative regulations. According to the Special Regulations, SOEs or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

According to the Securities Law of the People's Republic of China (《中華人民共和國證券法》) revised and took effect on August 31, 2014 (the "Securities Law"), the total share capital of a company seeking to list its shares on a stock exchange shall be no less than RMB30 million.

The promoters of a joint stock limited company must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before convening the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting. Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the company registration authority for registration of the establishment of the joint stock limited company. A company is formally established and has the status of a legal person once the business license has been issued by the relevant company registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank

rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Allotment and Issue of Shares

All issuance of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value. A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as overseas listed and foreign invested shares. Shares issued to investors within the PRC by joint stock limited companies, which also issue overseas listed and foreign shares, are known as domestic shares. Upon approval of the CSRC, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares shall be issued in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

Increase of Share Capital

According to the Company Law, when a joint stock limited company issues new shares, resolutions shall be passed by a general meeting, approving the class and number of the new shares, the issue price of the new shares, the date and deadline of the new share issuance and the class and amount of new shares to be issued to existing shareholders. When a company launches a public issuance of new shares with the approval of the CSRC, it shall publish a new document and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- it shall prepare a balance sheet and a property list;
- the resolution approving the reduction of registered capital shall be passed by a general meeting;

- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may be entitled to require the company to pay off its debts or provide corresponding guarantees covering the debts within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received; and
- it shall apply to the relevant industry and commerce administration for the alteration registration of the reduction in registered capital.

Repurchase of Shares

According to the Company Law, a joint stock limited company may not purchase its shares other than under any the following circumstances:

- reduction of its registered capital;
- merge with any other company that holds its shares;
- utilizing its shares for the employee share ownership scheme or for equity incentives;
- shareholders require the company to purchase their shares because of their objection to the resolution made at a general meeting on the merger or division of the company;
- utilizing the shares for conversion of corporate bonds which are convertible into shares issued by a listed company;
- where it is necessary for a listed company to safeguard its value and the interests of its shareholders.

Any acquisition of the shares of the company under circumstances set out in Clauses (1) and (2) referred to above shall be resolved at a general meeting; any acquisition of the shares of the company under circumstances set out in Clauses (3), (5) and (6) referred to above could be resolved by the board's meeting where over two-thirds of the directors are present, according to the provisions of the articles of association or the authority granted by the general meeting.

The shares repurchased pursuant to provisions set out in the first section of this Article, under circumstances set out in Clause (1), shall be canceled within ten days from the date of repurchase; under circumstances set out in Clauses (2) and (4), shall be transferred or canceled within six months; under circumstances set out in Clauses (3), (5) and (6), the total shares of the company held by the company itself shall not exceed 10% of its total shares in issue and shall be transferred or canceled within 3 years.

After a listed company acquires its own shares, it shall fulfill its disclosure obligation as required under the Securities Law. If the listed company acquires its own shares under circumstances set out in Clauses (3), (5) and (6) of the first section of this Article, the transaction shall be carried out in an open and centralized manner.

A company may not accept it's own shares as subject of pledge right.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the Company Law, transfer of shares by shareholders of a joint stock limited

company shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No registration of changes in the share register caused by transfer of registered shares shall be carried out within twenty days prior to the convening of a general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on registration of changes in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no registration of changes in the share register caused by transfer of shares shall be carried out within thirty days prior to convening of a general meeting or five days prior to any base date for determination of dividend distributions.

Under the Company Law, shares held by promoters shall not be transferred within one year from the inception of the company. Shares issued prior to the public issuance of shares shall not be transferred within one year from the date on which shares of the company are listed on a stock exchange. Directors, supervisors and the senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from the company. The articles of association may have other restrictions on the transfer of shares held by the directors, supervisors and senior managers.

Amendment of the Articles of Association

According to the Company Law, the company may amend its articles of association according to the laws, administrative regulations and provisions of the articles of association. General meeting exercises the power to amend the joint stock limited company's articles of association. The resolution of a general meeting regarding any amendment to the company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders present at the meeting. The board of directors is responsible to the general meeting and exercises power including formulating the proposed amendments to the company's articles of association. According to the Mandatory Provisions, the amendment of the articles of association involving the contents of the Mandatory Regulations will only be effective upon approval of the company examination and approval authority authorized by the State Council and of the CSRC. It must complete the registration of changes involving matters of the company registration in accordance with laws. The Special Regulations requires that the company must not modify or delete those provisions in the articles of association related to the mandatory provisions of the articles of association without authorization.

Shareholders

Under the Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoils of company debentures, minutes of general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquires on the company's operations;

- the right to bring an action before the People's Court to rescind resolutions passed by general meetings and board of directors where the articles of association is violated by the above resolutions;
- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of surplus assets of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription amount in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares, not to abuse rights of shareholders to the detriment of the interest of the company or other shareholders and not to abuse the Company's independent legal person status and limited liability of the shareholders to the detriment of the interest of the company's creditors, and any other shareholders' obligations specified in the company's articles of association.

General Meetings

General meeting is the organ of authority of a joint stock limited company, which exercises its power in accordance with the Company Law. Under the Company Law, general meetings exercise the following principal power:

- to decide on the company's operational policies and investment plans;
- to elect and change the directors and supervisors (served by representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issuance of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- to amend the articles of association; and
- other powers as provided for in the articles of association.

Annual general meetings are required to be held once every year. Under the Company Law, an interim general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid up share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request;
- whenever the board of directors deems necessary;
- when the board of supervisors so proposes; or
- other circumstances as provided for in the articles of associations.

Under the Company Law, general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or does not perform his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or does not perform its duties of convening the general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for more than 90 days consecutively may unilaterally convene and preside over such meeting.

Under the Company Law, notice of a general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of our extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, such notice in writing shall be delivered to all the registered shareholders 45 days in advance of the meeting, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, a general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the company's total voting shares. Otherwise, the company shall, within five days, notify the shareholders again of the matters to be considered and date and venue of the meeting to shareholders by public announcement. The company may convene the general meeting after such public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by a special resolution of the general meeting and by shareholders of the affected class at the class meeting convened respectively.

Pursuant to the Special Regulations, where the company convenes annual general meeting, shareholders holding 5% or above of voting shares have a right to submit to the company new

proposals in writing, in which the matters falling within the scope of general meeting shall be placed on the agenda of the meeting.

Under the Company Law, shareholders present at the general meeting have one vote for each share they hold, save that shares held by the company itself are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of directors or supervisors to be elected at the general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the Company Law and/or the Mandatory Provisions, resolutions of the general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the general meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issuance of any types of shares, warrants or other similar securities; (iv) the issuance of debentures; (v) the merger, division, dissolution, liquidation or change in the form of the company; and (vi) other matters considered by the general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board of Directors

Under the Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected upon the expiry of his term of office. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors in his term of office results in the number of directors being less than the quorum.

Under the Company Law, the board of directors mainly exercises the following power:

- to convene the general meetings and report on its work to the general meetings;
- to implement the resolutions passed at general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;

- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- making decisions on the establishment of the Company's internal management bodies;
- to decide on the appointment or dismissal of company managers and their remuneration, and decide on the appointment or dismissal of deputy managers and person-in-charge of finance of the company based on the nomination by the managers as well as their remuneration;
- to formulate the company's basic management system; and
- any other power under the articles of association.

Under the Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Under the Company Law, the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of corruption, bribery, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence; a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and
- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Under the Company Law, the board of directors shall appoint a chairman and may appoint vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Board of Supervisors

A joint stock limited company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company, the proportion of representatives of the employees shall not be less than one third of the supervisors. The specific proportion shall be stipulated in the articles of association. Representatives of the employees of the company in the board of supervisors shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise. The directors and senior management may not act concurrently as supervisors. The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairman of the board of supervisors is incapable of performing or does not perform his duties, the vice chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice chairman of the board of supervisors is incapable of performing or does not perform his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the board of supervisors. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors in their term of office results in the number of supervisors being less than the quorum.

The Board of Supervisors exercises the following power:

- to review the company's financial condition;
- to supervise the directors and senior management in the performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of interim general meetings and to convene and preside over general meetings when the board of directors fails to perform the duty of convening and presiding over general meetings;
- to initiate proposals for resolutions to general meetings;

- to initiate proceedings against directors and senior management; and
- other power specified in the articles of association.

Supervisors may attend board meetings and make enquiries or proposals in respect of matters in board resolutions. The board of supervisors may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

Manager and Senior Management

Under the Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall be responsible to the board of directors and may exercise the following power:

- to preside over the business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company's annual business plans and investment proposals;
- to draw up the plan for the establishment of the Company's internal management bodies;
- to formulate the general administration system of the company;
- to formulate the company's detailed rules;
- to recommend the appointment and dismissal of deputy managers and person-in-charge of finance;
- to appoint or dismiss administration officers (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the articles of association.

The manager shall also comply with other provisions of the articles of association concerning his power. The manager shall attend board meetings. According to the Company Law, senior management refers to the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors, the General Manager and Other Senior Management

According to the Company Law, Directors, supervisors and senior management of the company shall comply with the relevant laws, regulations and the articles of association, and have the faithful and diligent duties to the company.

Directors, supervisors and senior management are prohibited from accepting bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;

- loaning company funds to others or providing guarantees in favor of others supported by the company's assets without authorization in violation of the articles of association or without prior approval of the general meeting or board of directors;
- entering into contracts or dealing with the company without authorization in violation of the articles of association or without prior approval of the general meeting;
- unauthorized using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior consent of the general meeting;
- accepting and possessing commissions paid in transaction conducted between a third party and the company;
- unauthorized divulgence of business secret of the company; or
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management official who contravenes any law, regulation or the provisions of the articles of association in the performance of his duties resulting in any loss to the company shall be liable for compensating the company.

Finance and Accounting

Under the Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each accounting year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

A joint stock limited company's financial and accounting reports shall be available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting. A joint stock limited company publicly issuing shares must also publish its financial and accounting reports.

When distributing the year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the aggregate amount of fund has reached 50% of its registered capital's amount). If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions. After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the general meeting, allocate discretionary reserve fund from after-tax profits. The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association. Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at issuing prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund. The company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase

the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Dismissal of Accounting Firms

Pursuant to the Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by the general meeting or board of directors in accordance with provisions of the articles of association. The accounting firm should be allowed to make representations when the general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, accounting books, financial and accounting reports and other accounting data to the accounting firm it engages without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall engage an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from its appointment at an annual general meeting to the end of the next annual general meeting.

Distribution of Profits

According to the Company Law, a company shall not distribute profits before losses are covered and the capital reserve fund is provided. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive dividends and other distributions payable in respect of their overseas listed and foreign invested shares on behalf of such shareholders.

Dissolution and Liquidation

According to the Company Law, a company shall be dissolved by reason of the following:

(I) the term of its operations provided in the articles of association has expired or other causes of dissolution provided in the articles of association have occurred;

(II) the general meeting has resolved to dissolve the company;

(III) the company is dissolved by reason of merger or division;

(IV) the business license is revoked according to the laws; the company is ordered to close down or be dissolved; or

(V) the company is dissolved by the People's Court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders, on the grounds that the company suffers significant hardships in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders' interests.

In the event of (I) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending a general meeting.

Where the company is dissolved in the circumstances described in subparagraphs (I), (II), (IV), or (V) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of such event of dissolution. The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the general meeting. If a liquidation group is not established within the stipulated period, creditors of the company may apply to the People's Court, requesting the court to appoint relevant personnel to form the liquidation group. The People's Court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation group shall exercise the following power during the liquidation period:

- to dispose the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the general meeting or People's Court for confirmation. The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debt shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before payments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to pay off its liabilities, it must apply to the People's Court for a declaration of bankruptcy according to relevant laws. Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the general meeting or the People's Court for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of the company's termination shall be issued. Members of the liquidation group are required to discharge

their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abusing their power to accept bribes or other unlawful income and from misappropriating the company's properties. A member of the liquidation group is liable to indemnify the company or its creditors in respect of their losses arising from his intentional or gross negligence.

Loss of Share Certificates

According to the Company Law, if a registered share certificate is stolen, lost or destroyed, the respective shareholder may apply, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, to a People's Court for a declaration that such certificate will no longer be valid. After the People's Court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement share certificate. A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Merger and Demerger

According to the Company Law, companies may merge through absorption or the establishment of a new entity. If it merges by absorption, the company which is absorbed shall be dissolved. If the companies merge by forming a new corporation, then both companies shall be dissolved. For corporate merger, all parties to the merger shall enter into a merger agreement and prepare balance sheets and checklists of assets. The companies involved shall, within ten days after the decision of merger, notify the creditors, and shall make a newspaper announcement within 30 days. The creditors may, within 30 days after the receipt of the notice or (if it fails to receive a notice) within 45 days after the announcement, require the company to settle its debts or to provide guarantees. Upon the merger, the credits and debts of the companies involved shall be succeeded by the surviving company or by the newly established company. For division of a company, the property of the company shall be divided properly, and balance sheets and checklists of assets shall be prepared. The company shall, within ten days after the decision of division, notify the creditors and make a newspaper announcement within 30 days. The companies after division shall jointly bear liabilities for the debts of the former companies before division, unless it is otherwise prescribed by written agreements entered into between the companies and their respective creditors for the settlement of debts before the division.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from the CSRC. Subject to approval of the company's plans to issue overseas-listed foreign shares and domestic shares by the CSRC, the board of directors of the company may make arrangement to implement such plans for issuance of the foreign shares and domestic shares, respectively, within fifteen months from the date of approval by the CSRC.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations relating to the issue and trading of shares and disclosure of information of the Joint Stock Limited company. The Securities Law is the first national securities law in the PRC, and comprehensively regulates activities in the PRC securities market. It is divided into 12 chapters and 240 articles regulating, among other things, the issuance and

trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. Article 238 of the PRC Securities Law provides that domestic enterprises shall obtain prior approval from the State Council's securities regulatory authorities to list its shares outside the PRC. Currently, the issuance and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

Under the Arbitration Law of the People's Republic of China (《中華人民共和國仲裁法》) revised on September 1, 2017 and took effect on January 1, 2018 (the "Arbitration Law"), an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the People's Court will refuse to accept the case except when the arbitration agreement is declared invalid.

The Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer to the effect that whenever any disputes or claims arise (i) between holders of H Shares and the issuer; (ii) between holders of H Shares and the issuer's directors, supervisors, managers or other senior management officials; and (iii) between holders of H Shares and holders of domestic shares, such disputes shall be resolved through arbitration. Matters in arbitration include any disputes or claims of rights in relation to the issuer's affairs as a result of any rights or obligations arising under its articles of association, the Company Law and other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim of rights or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim of rights or whose participation is necessary for the resolution of such dispute or claim of rights, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Center (the "HKIAC") in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim of rights to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

Under the Arbitration Law and Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an arbitral award, the other party may apply to the People's Court for enforcement. A People's Court shall order the cancelation of an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or exceeds the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) adopted on June 10, 1958 (the "New York Convention") pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the New York Convention in the PRC that (i) the PRC will only apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

Agreement has been reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People's Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on February 1, 2000. In accordance with this arrangement, awards made by the Mainland arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitral awards are also enforceable in the Mainland.

OVERSEAS DIRECT INVESTMENT REGULATIONS

Pursuant to the Regulations on the Administration of Overseas Investment (《境外投資管理辦法》) promulgated by the MOFCOM which became effective on October 6, 2014, enterprises shall obtain approval from or register with the commerce authorities for conducting overseas investment according to such regulations.

Pursuant to Regulations on Foreign Exchange Administration of Overseas Direct Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) promulgated by the SAFE which became effective on August 1, 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments. According to the Notice of the State Administration of Taxation on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which came into effect on June 1, 2015, the administrative approval for foreign exchange registration approval under overseas direct investment has been canceled, and the banks are entitled to review and carry out foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks. Pursuant to the Administrative Measures for Outbound Investment by Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC and took effect on March 1, 2018, outbound investment projects that involve sensitive countries and regions or sensitive industries shall be subject to administration of verification and approval by the

NDRC. For big-sized non-sensitive projects carried out by investors through overseas enterprises controlled by them, the investors shall, prior to the implementation of the projects, submit situation report on development of such big-sized non-sensitive projects through the network system to inform the NDRC of relevant information. In particular, big-sized non-sensitive projects refer to non-sensitive projects of US$300 million or above invested by Chinese investors. Other outbound investment projects shall be subject to administration by record-filing.

In accordance with the Administrative Measures for the Administration of the Formation, Acquisition and Purchase of Non-Controlling Shares of Overseas Business Institutions by Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司境外設立、收購、參股經營機構管理辦法》) promulgated and took effect on September 25, 2018, securities companies and securities investment fund management companies which establish or acquire subsidiaries overseas or purchase non-controlling shares of overseas business institutions shall be subject to administration of approval by the CSRC. According to the Measures for Supervision and Administration of Futures Companies (《期貨公司監督管理辦法》) revised and took effect on December 7, 2017, domestic futures companies in the PRC which apply for establishing or acquiring futures operation entities overseas or purchasing equity interest in futures operation entities overseas are required to satisfy the relevant conditions and make an application to the CSRC for approval.

ANTI-MONEY LAUNDERING REGULATIONS

The Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》) revised and took effect on January 1, 2007 sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including supervision over anti-money laundering, formulation of rules and regulations regarding anti-money laundering activities of financial institutions, monitoring and inspection of the anti-money laundering practice of financial institutions and investigations on suspicious transactions within their respective scope of authority. The persons in charge of the financial institutions shall be responsible for the effective implementation of internal control system regarding anti-money laundering. Financial institutions shall establish a client identification system and a system for keeping clients' identity data and historical affairs records, as well as a report system for transactions involving large sums of money and for dubious transactions according to applicable requirements.

Pursuant to the Anti-money Laundering Regulations for Financial Institutions (《金融機構反洗錢規定》) which became effective on January 1, 2007, financial institutions and their branches are required to establish a comprehensive internal control system for anti-money laundering, and set up a special anti-money laundering department or designate an internal department to implement the anti-money laundering measures, formulate internal anti-money laundering operating procedures and control measures and organize anti-money laundering training for staff to enhance their anti-money laundering capability.

Pursuant to the Measures on the Administration over Client Identification and Maintenance of Client Identity Materials and Transaction Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) which became effective on August 1, 2007, financial institutions are required to establish a client identification system, maintain records for the identities and data of relevant transactions of all clients and keep all retail transaction documents and record books.

Pursuant to the Administrative Measures on Reporting Large-Sum Transactions and Dubious Transactions of Financial Institutions (《金融機構大額交易和可疑交易報告管理辦法》) which were revised and became effective on July 26, 2018, upon the detection of any transactions involving large sums of money or dubious transactions by the financial institutions, the head office or the designated department of the financial institutions shall electronically report such transactions to the China Anti-money Laundering Monitoring and Analysis Center. The Implementation Measures on the Anti-money Laundering by Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) which took effect on October 1, 2010, further specifies the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall establish internal control systems for anti-money laundering.

MATERIAL DIFFERENCES BETWEEN CERTAIN ASPECTS OF CORPORATION LAW IN THE PRC AND HONG KONG

Hong Kong company law is primarily set out in the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, supplemented by common law and rules of equity that apply to Hong Kong. As a joint stock limited company incorporated in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law. Set out below is a summary of certain material differences between Hong Kong company law and the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong, which issues a certificate of incorporation to the Company upon its incorporation, and the company will acquire an independent corporate existence henceforth. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law does not provide for authorized share capital. The Company's registered capital is the amount of its issued share capital. Any increase in the Company's registered capital must be approved by our Shareholders' general meeting and shall be approved by/filed with the relevant PRC governmental and regulatory authorities (if applicable).

Under the Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. The Companies Ordinance does not prescribe any minimum capital requirement for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is no over-valuation or under-valuation of the assets. There is no such restriction on a company incorporated in Hong Kong.

Restrictions on Shareholding and Transfer of Shares

Generally, A Shares of the Company, which are denominated and subscribed for in Renminbi, can be subscribed for and traded by PRC investors, qualified overseas institutional investors or qualified overseas strategic investors, while also being eligible securities under the Northbound Trading Link, A Shares of the Company can be subscribed for and traded by Hong Kong and other overseas investors in accordance with the rules and limits of Shenzhen-Hong Kong Stock Connect. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. If the H shares are eligible securities under the Southbound Trading Link, they are also subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in a company, and the shares they held in a company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of a company's shares held by its directors, supervisors and senior management. There are no restrictions on shareholdings and transfers of shares under Hong Kong law apart from (i) the restriction on the Company to issue additional Shares within six months, and (ii) 12-month lockup on Controlling Shareholders' disposal of Shares, after the **[REDACTED]**.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under Hong Kong company law.

Notice of Shareholders' Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Whereas notice of an extraordinary general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholder's general meeting must be given at least 30 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all

shareholders in advance, and any shareholder who wishes to attend the meeting must reply in writing at least 20 days before the date of the meeting.

For a company incorporated in Hong Kong with limited liability, the minimum period of notice of a general meeting is 14 days. Further, where a meeting involves consideration of a resolution requiring special notice, the company must also give its shareholders notice of the resolution at least 14 days before the meeting. The notice period for the annual shareholders' general meeting is 21 days.

Quorum for Shareholders' Meetings

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter. Under Hong Kong law, the quorum for a shareholders' meeting is two members, unless the articles of association of a company specifies otherwise or the company has only one member, in which case the quorum is one.

Voting at Shareholders' Meetings

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our shareholders present in person or by proxy at a shareholders' meeting except in cases such as proposed amendments to our Articles of Association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting, and a special resolution is passed by not less than three-fourths of affirmative votes casted by shareholders present in person, or by proxy, at a general meeting.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate requirements relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V—Summary of Articles of Association.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the passing of a special resolution by the shareholders of the relevant class at a separate meeting sanctioning the variation, (ii) with the written consent of shareholders representing at least three-fourths of the total voting rights of shareholders of the relevant class, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

As required by the Hong Kong Listing Rules and the Mandatory Provisions, we have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes. The special procedures for voting by a class of Shareholders shall not apply in the following circumstances: (i) where we issue, either separately or concurrently in any 12-month period, upon approval by special resolutions passed at a general meeting, A shares and H shares not more than 20% of each of the existing A shares and H shares, respectively; (ii) where the plan for the issue of A shares and H shares upon our establishment is implemented within 15 months following the date of approval by the securities regulatory authorities under the State Council or within the stated period as stipulated by applicable requirements, and (iii) where the Company issues and lists its H shares overseas, upon receiving the approval of the State Council or the securities regulatory authorities under the State Council, our shareholders may liquidate the unlisted shares they hold for dealing in overseas.

Derivative Action By Minority Shareholders

Under Hong Kong company law, a shareholder may, with the leave of the Court, start a derivative action on behalf of a company for any misconduct committed by its directors against the company. For example, leave may be granted where the directors control a majority of votes at a general meeting, and could thereby prevent the company from suing the directors in its own name.

Pursuant to the PRC Company Law, in the event where the directors and senior management of a joint stock limited company violate laws, administrative regulations or its articles of association, resulting in losses to the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates as such, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

In addition, the Mandatory Provisions provide us with certain remedies against the Directors, Supervisors and senior management who breach their duties to the Company. In addition, as a condition to the listing of overseas listed foreign Shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking to observe the articles of association in favor of the company. This allows minority Shareholders to take action against our Directors and Supervisors in default.

Minority Shareholder Protection

Under the Companies Ordinance, a shareholder who alleges that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to

investigate the affairs of a company incorporated or registered in Hong Kong. The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a People's Court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority Shareholder protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a director or supervisor of our assets or the individual rights of other shareholders.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and indemnification in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of Supervisors

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company's interests. Furthermore, the Companies Ordinance has codified the directors' statutory duty of care. Under the Special Regulations, directors, supervisors, managers and other members of senior management of the company shall honestly and diligently perform their duties for the company.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days

before such meeting. According to the PRC laws, a company shall prepare its financial accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the CAS, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the CAS.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the rights of shareholders of Hong Kong companies under the Companies Ordinance.

Receiving Agent

Under the Hong Kong law, dividends once declared by the board of directors will become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require that the relevant company shall appoint a receiving agent for shareholders who hold overseas listed foreign shares, and the receiving agent shall receive on behalf of such holders of shares dividends declared and other monies owed by the company in respect of its overseas listed foreign shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders' approval, an intra-group wholly-owned subsidiary company may also be amalgamated horizontally or vertically under the Companies Ordinance. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Mandatory Transfers

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior management may be resolved through the courts. The Mandatory Provisions provides that disputes between a holder of H shares and the Company, a holder of H shares and directors, supervisors, managers and other members of senior management of the Company or a holder of H shares and a holder of domestic listed shares, arising from the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of the Company should, with certain exceptions, be referred to arbitration at either the HKIAC or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Remedies of a Company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than thirty days (extendable to sixty days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within thirty days before the date of convening a general meeting or within five days before the base date of distribution of dividends.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN THE HONG KONG LISTING RULES AND SHENZHEN STOCK EXCHANGE LISTING RULES

As our A Shares are listed on the Shenzhen Stock Exchange, we are also subject to the Shenzhen Stock Exchange Listing Rules. Set out below is a summary of certain differences between the Hong Kong Listing Rules and Shenzhen Stock Exchange Listing Rules:

- *Periodic financial reporting*

There are material differences in financial reporting standards and practices regarding, for examples, industry-specific financial reporting requirements, announcement of preliminary results, form and content of periodic financial reports and post-vetting of periodic financial reports.

- *Classification and disclosure requirements for notifiable transactions*

The method of classification of notifiable transactions under the Hong Kong Listing Rules and the disclosure requirement pertaining to such transactions differ from those under the Shenzhen Stock Exchange Listing Rules.

- *Connected transactions*

The definition of a connected person under the Hong Kong Listing Rules and the definition of a related party under the Shenzhen Stock Exchange Listing Rules are different. In addition, the disclosure and shareholder approval requirements for connected transactions under the Hong Kong Listing Rules and for related party transactions under the Shenzhen Stock Exchange Listing Rules, as well as the respective exemptions are different.

- *Disclosure of inside information*

The scope, timing and method of disclosure of inside information are different between the Hong Kong Listing Rules and Shenzhen Stock Exchange Listing Rules.

Set out herein is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As the information contained herein is in summary form, it may not contain all the information that is important to potential investors.

Scope of Business

Registered under the laws, the business scope of the Company is: investment management, industrial investment, equity investment, investment consulting and house renting. (for projects requiring approval pursuant to the laws, commencement of the operations thereof shall be subject to the approval from the relevant departments).

Shares

Share issue

The shares of the Company may take the form of shares.

The shares of the Company shall be issued in accordance with the open and fair principles that same class of each share shall enjoy equal rights.

The issue terms and price per share of the same class in the same issue shall be the same; the same price shall be paid for each share of the same class during the same share issue subscribed for by any entities or individuals.

The Company shall, at any time, have ordinary shares. Subject to the approval by the department as authorized by the State Council, the Company may issue other classes of shares. Shareholders of each class of the Company shall enjoy equal rights in the distribution of dividends or distributions in any other forms.

Subject to approval by the securities regulatory authority of the State Council, the Company may issue shares to domestic and overseas investors.

Subject to the approval by the securities regulatory authority of the State Council, holders of the domestic shares of the Company may transfer their shares to overseas investors and list and trade such transferred shares on an overseas stock exchange, or convert their shares into foreign listed shares. The listing and trading of the transferred or converted shares on an overseas stock exchange shall also comply with the regulatory procedures, regulations and requirements of the overseas stock market. The listing and trading of the transferred or converted shares on an overseas stock exchange is not subject to voting by separate class shareholders' meeting.

Where the Company has a scheme approved by the securities regulatory authority of the State Council to issue overseas listed shares and domestic shares, the board of directors of the Company may arrangement to make separate issue.

A scheme for the separate issue of overseas listed shares and domestic shares prepared by the Company in accordance with the preceding paragraph may be implemented separately within 15 months from the date on which the issue scheme is approved by the securities regulatory authority of the State Council.

If the Company separately issues overseas listed shares and domestic shares within the total number of shares of the Company's issue scheme, overseas listed shares and domestic shares shall separately be subscribed in full at one time. Under special circumstances, where the total number of shares in each issue cannot be entirely subscribed in full at the one time, such shares may, subject to approval by the securities regulatory authority of the State Council, be issued in installments.

Increase and Decrease of Shares, Repurchase of Shares

The Company may, based on its business and development needs and in accordance with the requirement of laws, administrative regulations, normative documents, department rules and listing rules of the places where the shares of Company are listed, increase its capital in the following manners upon resolutions being adopted by the shareholders' general meetings:

(I) by public offering of shares;

(II) by non-public offering of shares;

(III) by placing shares to its existing shareholders;

(IV) by issuing bonus shares to its existing shareholders;

(V) by capitalizing its capital common reserve;

(VI) by any other means permitted by laws and administrative regulations and the competent governmental authorities.

Under the following circumstances, the Company can repurchase its outstanding shares in accordance with the laws, administrative regulations, department rules, the listing rules at the place where the shares of the Company are listed and the Articles of Association:

(I) reducing its capital;

(II) merging with other companies which hold the Company's shares;

(III) giving shares to employee of the Company as a reward;

(IV) acquiring shares held by shareholders who vote against any resolution proposed in any shareholders' general meeting on the merger or division of the Company upon their request;

(V) using shares for converting convertible corporate bonds issued by the listed company;

(VI) the Company to protect the corporate value and the rights and interests of shareholders;

(VII) in other circumstances as stipulated by laws and administrative regulations.

Except the above circumstances, the Company is not allowed to buy or sell its own shares.

Any repurchase of the Company shares for the reasons stated in (I), (II) or (IV) referred to above may adopt the following methods:

(I) by making a pro rata general offer of buy-back to all shareholders;

(II) by repurchasing through open trading at the stock exchange;

(III) by repurchasing through an off-market agreement; and

(IV) through other means approved by the laws, administrative regulations, the listing rules at the place where the shares of the Company are listed and related supervisory authorities.

Any repurchase of the Company shares for the reasons stated in (III), (V) or (VI) referred to above shall adopt the method of open and centralized trading.

Any repurchase of the Company shares for the reasons stated in (I) to (III) referred to above shall be resolved at a shareholders' general meeting.

Any repurchase of the Company shares for the reasons stated in (V) and (VI) referred to above shall obtain approval of two-thirds of the directors attending the board meeting, and the board of directors shall be authorized by the general meeting.

The Company shall make an application to its original registration authority to modify the registration on its registered capital after it cancels that portion of shares. The aggregate par value of the cancelled shares shall be offset against the registered capital of the Company.

Financial assistance for the acquisition of the Company's Shares

The Company or its subsidiaries shall not at any time or use any means to provide any financial assistance to parties buying or intending to buy the Company's shares. The aforesaid parties buying the Company's shares shall include parties directly or indirectly bearing obligations because of the acquisition of the Company's shares. However, the following actions shall not be restricted by the abovementioned article:

(I) financial assistance provided by the Company for the Company's interests and the major purpose of such financial assistance is not for acquisition of the Company's shares, or the said financial assistance is an incidental part of a certain overall plan of the Company;

(II) the Company using its properties as dividends for distribution in accordance with the law;

(III) dividends distributed in the form of shares;

(IV) reducing registered capital, repurchase shares or adjusting shareholding structure in accordance with the Articles of Association;

(V) providing loans for its due course of business operations within the scope of the Company's business (however, this shall not result in a reduction of the Company's net assets, or, where there is a reduction in its net assets, the financial assistance is sourced from the Company's distributable profits);

(VI) providing loans according to the plan for employee stock ownership plan (however, this shall not result in a reduction of the net assets of the Company, or, where there is a reduction in its net assets, the financial assistance is sourced from the Company's distributable profits).

Transfer of shares

Unless otherwise provided in laws, administrative regulations, department rules, normative documents and requirements of securities regulatory authorities in the place where the Company's

shares are listed, shares of the Company may be transferred in accordance with the laws with no lien attached. Transfer of overseas listed shares listed in Hong Kong requires registration by the share registrar appointed by the Company.

The company shall not accept any pledge with its own shares as the subject matter.

Shares of the Company held by the promoters shall not be transferred within 1 year from the date of the establishment of the Company. The shares of the Company issued prior to the Company's public offering of shares shall not be transferred within 1 year from the date the shares of the Company being listed and traded on the stock exchange(s).

The directors, supervisors and senior management of the Company shall report to the Company their shareholdings in the Company and changes therein and shall not transfer more than 25% per annum of the total number of the shares of the Company held by them during their term of office. The shares of the Company held by them shall not be transferred within 1 year from the date the shares of the Company being listed and traded on the stock exchange(s). The aforementioned person(s) shall not transfer the shares of the Company held by them within 6 months commencing from the termination of their service.

Share certificates and shareholder register

The Company's share certificates shall be in registered form. In addition to those required by the Company Law, other matters required to be specified by the stock exchange on which the shares of the Company are listed shall also be stated on the share certificate.

The Company may issue overseas listed shares in form of overseas depository receipts or other derivative means of shares in accordance with the laws and the practice of registration and depository of securities in the listing place.

A shareholder register shall be established by the Company to record the following items:

(I) the name (or title), address (or residence) and occupation or nature of each shareholder;

(II) the class and number of shares held by each shareholder;

(III) the amount paid for or amount payable for shares held by each shareholder;

(IV) the serial numbers of shares held by each shareholder;

(V) the date on which the party registered as a shareholder;

(VI) the date on which the party ceased to be a shareholder.

The shareholder register shall be sufficient evidence to verify that a shareholder holds Company shares, except where evidence to the contrary exists.

In accordance with the mutual understanding and agreement reached between the securities regulatory authority of the State Council and the overseas securities supervision and management authority, the original copy of a company's shareholders register of the overseas listed shares shall be maintained overseas and managed by overseas agent entrusted by the company. The original copy of the company's register of the overseas listed shares listing in Hong Kong shall be maintained in Hong Kong.

A duplicate copy of the Company's shareholders register of the overseas listed shares be kept at the business premises of the Company as backup. The entrusted overseas agent shall ensure the consistency of the original and duplicate copies of the shareholders register of the overseas listed shares all times.

There shall be no overlap between the various parts of the shareholders register. In the event of assignment of shares registered in a certain part of the shareholders register, those shares shall not be permitted to be registered in another part of the shareholders register during the period of time in which their registration is maintained in the other part of the ledger.

Alteration or correction of any part of a shareholder's register shall be in accordance with the law at which those parts of the shareholders register are kept.

Any party which raises objection to a shareholder's register and requests its name (or title) to be registered in the shareholders register or requests that its name (or title) be deleted from the shareholders register may apply to the court having jurisdiction to amend that shareholders register. Any shareholders registered in the shareholders register or any party who requests that its name (or title) be registered in the shareholders register may apply to the Company for supplementary issue of replacement certificates (i.e. "corresponding certificates") if its share certificates (i.e. "original share certificates") have been lost.

Shareholders and General Meeting

Shareholders

The Company shall establish a shareholder register according to the certificates provided by the securities registry and the shareholder register shall be the ample evidence that the shareholders hold any shares in the Company. The shareholders of the Company shall be the parties who legally hold the Company's shares and whose names (or titles) have been registered on the shareholders register. A shareholder shall enjoy rights and assume obligations pursuant to the class and quantity of shares held; holders of the same class of share shall enjoy equal rights and assume equal obligations.

When two or more persons are registered as joint shareholders of any shares, they shall be deemed as common owners, and shall subject to the following clauses:

(I) the Company should not register for joint shareholders of more than four persons;

(II) all joint shareholders of any shares shall assume joint liabilities for any amount payable in respect of the Relevant Shares;

(III) in event that one of the joint shareholders deceased, only the remaining joint shareholders are deemed as having the rights of ownership of the related shares, however the board of directors shall have the right to demand for related shareholder's death certificate he deems appropriate concerning the alteration of shareholders register;

(IV) in respect of joint shareholders of any shares, only joint shareholders ranking the first in the joint shareholder's register is allowed to receive related stocks and notices from the Company, any notices being sent to such persons shall be deemed as already received by all joint shareholders of related shares. Any of the joint shareholders may execute the form of proxy and attend the general shareholders' meetings of the

Company or to exercise all voting rights with respect to the Relevant Shares; if there are more than one joint shareholders participating in person or by proxy, the joint shareholder listed in preference shall have the right to vote. For this purpose, the preference of shareholders shall be subject to the ranking of the joint shareholders of the relevant shares in the register of shareholders.

A holder of ordinary shares of the company shall have the following rights:

(I) to receive dividends and distributions in other forms according to the shares held;

(II) to request, convene, hold, participate or send proxy to attend shareholders' meetings and to exercise the corresponding voting rights according to the law;

(III) to supervise and manage business operations of the Company and to raise proposals or address inquiries accordingly;

(IV) to transfer, donate or pledge the shares held by him pursuant to the provisions of laws, administrative regulations and the Articles of Association;

(V) to obtain information pursuant to the provisions of the Articles of Association including:

1. obtain a copy of the Articles of Association after the cost has been paid;

2. the right to consult or copy the following after reasonable fees have been paid:

   (1) all parts of the shareholders register;

   (2) personal information concerning directors, supervisors, managers and other senior management of the Company, including:

      (a) current and previous names and/or alternative names;

      (b) principal address (residence);

      (c) nationality;

      (d) full-time position and/or other concurrent positions and posts;

      (e) identification document and numbers.

   (3) the status of the Company share capital;

   (4) reports regarding the aggregate par value, number, the highest price and the lowest price with respect to each type of the shares of the Company repurchased by the Company since the last fiscal year as well as the total amount paid by the Company for such repurchase (with a breakdown between domestic shares and foreign shares);

   (5) minutes of general meeting;

   (6) the Company's latest audited financial statements and the directors', auditors' and supervisors' reports thereon;

   (7) special resolutions of the general meeting and/or the Board of Directors of the Company;

(8) a copy of the latest annual report (the anniversary declaration form) filed with the State Administration for Market Regulation or other competent authority;

(VI) to participate in, upon the Company's termination or liquidation, the distribution of the Company's remaining assets according to the quantity of shares held;

(VII) other rights as stipulated in laws, administrative regulations, departmental regulations and the Articles of Association.

If the content of the resolutions of the Company's meeting of shareholders or board of directors contravenes the law or administrative regulation, the shareholders can request the People's Court to void the resolutions.

If the convening procedure or voting method of a shareholder's meeting or board of director's meeting contravenes the law, administrative regulation or these Articles, or if the contents of the resolutions contravene the Articles, the shareholders can request the People's Court to cancel the resolutions within 60 days.

If a director or a senior management contravenes the law, administrative regulation, or these Articles during the course of performing his duties, resulting in losses to the Company, shareholder(s) individually or together holding 1% or more of the total shares of the Company for more than 180 consecutive days can request the supervisory board in writing to start litigation in the People's Court. If a supervisory board contravenes the law, administrative regulation or these Articles, during the course of performing his duties resulting in losses to the Company, the shareholders can request the board of directors in writing to start litigation in the People's Court.

If the supervisory board or board of directors refuses to start litigation after receiving the shareholder's written request under the preceding paragraph, or does not start litigation within 30 days of receiving the request, or the situation is so urgent that without an immediate litigation will lead to irreparable losses suffered by the Company, the shareholder under the previous paragraph can litigate directly at the People's Court under his own name, for the interest of the Company.

If any person intervenes with the lawful interests of the Company, resulting in losses suffered by the Company, the shareholder(s) individually or in aggregate holding 1% or more of the total shares of the Company for more than 180 consecutive days can start litigation at the People's Court in accordance with the preceding paragraphs.

If a director or senior management contravenes the law, administrative regulation, or the Articles of Association, thereby damaging a shareholder's interests, the shareholder can start litigation in the People's Court.

A holder of ordinary shares of the Company shall assume the following obligations:

(I) to abide by the law, administrative regulation and the Articles of Association;

(II) to pay for the shares pursuant to the quantity and the method of subscription;

(III) not to divest the shares except as required by the law or statutory regulations;

(IV) not to abuse his rights as a shareholder to damage the Company's or other shareholder's interests; not to abuse the independent legal person status of the

Company and the limited liability of the shareholders to damage the interests of creditors. A shareholder who abuses his shareholders' rights, resulting in losses to the Company and other shareholders shall be liable for compensation according to the law. Shareholders who abuse the independent legal person status of the Company and limited liability of shareholders, in order to evade from debts, thereby seriously damaging the interests of creditors, should be jointly and severally liable for the Company's debts;

(V) other obligations as stipulated in laws, administrative regulations and the Articles of Association.

If any shareholder who holds more than 5% shares in the Company pledges the shares held, such shareholder shall provide a written report to the Company on the date of such pledge.

The controlling shareholder or actual controller of the Company cannot use their affiliations to damage the Company's interests. Otherwise, they shall make compensation for the loss incurred to the Company.

The controlling shareholder and actual controller shall bear the fiduciary duty towards the Company and its public shareholders. The controlling shareholder should strictly abide by the laws in exercising the investor's rights. The controlling shareholder shall not infringe the legitimate rights of the Company and the public shareholders by way of profit distribution, assets restructuring, external investment, misappropriation of assets, offering guarantee for loans, etc. and shall not use the controlling status to jeopardize the interests of the Company and its public shareholders.

Save for the obligations under laws, administrative regulations or the listing rules of the stock exchange(s) of the places where the Company's shares are listed, controlling shareholders shall not, in the exercise of their shareholders' powers, make any decisions prejudicial to the interests of all or part of the shareholders as a result of the exercise of their voting rights on the issues set forth below:

(I) to relieve a director or supervisor from his/her obligations to act in good faith for the best interests of the Company;

(II) to approve that a director or supervisor (for his/her own interests or another's interests) expropriate Company property in any manner, including (but not limited to) any opportunity which is beneficial to the Company;

(III) to approve that a director or supervisor (for his/her own interests or another's interests) divest other shareholders of individual rights and interests including (but not limited to) any distribution rights and voting rights, but not including the reorganization of the Company submitted to the general meeting for approval in accordance with the Articles of Association.

General Rules of General Meeting

General meeting of shareholders shall be the Company's authority and shall exercise its powers of office in accordance with the law:

(I) to determine the Company's business policies and investment plans;

(II) to elect and replace of directors and supervisors who are not employee representatives and determine matters concerning the remuneration of those directors and supervisors;

(III) to review and approve the board of directors' report;

(IV) to review and approve the Board of Superiors report;

(V) to review and approve the Company's annual report;

(VI) to review and approve the Company's annual budget and final accounting plans;

(VII) to review and approve the Company's profit distribution and loss recovery plans;

(VIII) to approve resolutions on matters such as increase or reduction of the registered capital, and issue of any class of shares, warrants and other similar securities;

(IX) to approve resolutions on matters such as issuance of corporate bonds;

(X) to approve resolutions on matters such as merger, demerger, dissolution, liquidation or changing the form of the Company;

(XI) to amend the Articles of Association;

(XII) to approve resolutions on matters such as engagement, dismissal or non-renewal of the accounting firm;

(XIII) to review and approve of the matters relating to guarantees under Article 72 of the Articles of Association;

(XIV) to review and approve any acquisition or disposal of material assets in one accounting year exceeding 30% of the latest audited total assets of the Company;

(XV) to review and approve any matter relating to the change in use of proceeds;

(XVI) to review and approve any connected transaction which should be considered and approved in the general meetings according to the listing rules of place where the Company listed;

(XVII) to review share incentive plans;

(XVIII) to review proposals raised by the shareholders who solely or jointly represent more than 3% (including 3%) of the Company's shareholders with voting rights;

(XIX) to review other matters which should be decided in the general meetings as required by the law, administrative regulations, regulations of departments, listing rules of the place where the Company listed, rules of stock exchange and the Articles of Association.

General meetings include annual general meetings and extraordinary general meetings. The annual general meeting shall be held once every year within six months after the end of the previous accounting year.

The Company shall convene an extraordinary general meeting within two months upon the occurrence of one of the following circumstances:

(I) the number of directors is less than the quorum required by the Company Law or less than two-thirds of the number required by the Articles of Association;

(II) the uncovered losses are in excess of one third of the Company's total number of paid-up shares;

(III) shareholders separately or collectively holding more than 10% of the Company's shares request in writing;

(IV) the board considers it necessary;

(V) the Board of Supervisors proposes to convene;

(VI) such other circumstances as provided for by laws, administrative regulations, departmental rules or the Articles of Association.

Convening of General Meeting

Any independent non-executive director may propose to the Board to convene an extraordinary general meeting, and the board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles of Association.

If the board agrees to convene an extraordinary general meeting, a notice on convening such meeting shall be issued within five days following the date of such resolution of the board. If the board rejects to convene an extraordinary general meeting, the board shall provide an explanation and make relevant announcement.

The Board of Supervisors may propose in writing to the board to convene an extraordinary general meeting. The board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles of Association.

If the board agrees to convene an extraordinary general meeting, a notice on convening such meeting shall be issued within five days following the date of such resolution of the board, provided that any change to the original proposal made in the notice shall be subject to approval of the Board of Supervisors.

If the board rejects the proposal or withholds from responding for 10 days following receipt of the proposal, the board shall be deemed incapable or failing to perform the duty of convening a general meeting. In such case, the Board of Supervisors may convene and preside over the meeting.

Any of the shareholders individually or jointly holding more than 10% of the Company's shares may propose in writing to the board to convene an extraordinary general meeting. The board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles of Association.

If the board consents to convene an extraordinary general meeting, a notice on convening such meeting shall be issued within five days following the date of such resolution of the board, provided that any change to the original proposal made in the notice shall be subject to approval of the relevant shareholder(s).

If the board rejects the proposal or withholds from responding for 10 days following the receipt of the proposal, such shareholder(s) individually or jointly holding more than 10% of the shares of the Company may propose to the Board of Supervisors in writing to convene an extraordinary general meeting.

If the Board of Supervisors consents to convene an extraordinary general meeting, a notice convening such meeting shall be issued within five days following receipt of the proposal, provided that any change to the original proposal made in the notice shall be subject to approval of the relevant shareholder(s).

If the Board of Supervisors has not issued any notice on convening such meeting within the prescribed period, it shall be deemed that the Board of Supervisors will not convene and preside over the extraordinary general meeting. Such shareholder(s) individually or jointly holding more than 10% of the Company's shares for more than 90 consecutive days shall have the right to convene and preside over an extraordinary general meeting.

If the Board of Supervisors or any such shareholder(s) decide(s) to convene an extraordinary general meeting, the board shall be notified in writing, and the meeting shall be registered with the local branch of the CSRC in the place in which the Company is located and the stock exchange(s).

The shareholder(s) convening the meeting shall hold no less than 10% of the shares of the Company prior to the announcement of any resolution approved at the general meeting.

Such convening shareholder(s) shall submit relevant evidence to the local branch of the CSRC in the place in which the Company is located and the stock exchange(s) when issuing the notice of general meeting and announcement of any resolution approved at the general meeting.

The board and its secretary shall cooperate with the Board of Supervisors or such shareholder(s) convening the meeting. The board shall provide the register of shareholders as of the record date.

Expenses arising from convening of a general meeting by the Board of Supervisors or shareholder(s) shall be borne by the Company and shall be deducted from any payment due by the Company to breaching directors.

Proposal and Notice of General Meeting

As a general meeting is convened, the board, Board of Supervisors and any of the shareholders individually or jointly holding no less than 3% of the shares of the Company may propose resolution(s) to the Company.

Any of the shareholders individually or jointly holding no less than 3% of the shares of the Company may submit interim proposals in writing to the convener at least 10 days prior to the general meeting. The convener shall then send a supplemental notice to the shareholders to announce the interim proposal, within 2 days upon receipt of such proposal.

Other than the above circumstances, the convener shall not make any change in the notice of the general meeting to the existing proposals or add any new proposal after the publication of the notice.

Such motions which are not specified in the notice of the general meeting or which do not comply with the Articles of Association shall not be voted or resolved at the general meeting.

When the Company convenes a general meeting, written notice of the meeting shall be given by the convener 45 days before the date of the meeting to notify all of the shareholders whose names

appear in the register of shareholders of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting 20 days before the date of the meeting.

At the annual general meeting held by the Company, shareholders individually or jointly holding no less than 3% (including 3%) of the shares of the Company are entitled to propose new resolutions in writing to the Company. The Company shall place such resolutions on the agenda for such meeting if they are matters falling within the scope of duties of the shareholders meeting.

The Company shall, based on the written replies received 20 days before the date of the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amounts to not less than half of the Company's total voting shares, the Company may hold a general meeting; otherwise, the Company shall within 5 days notify the shareholders again, by way of an announcement, of the matters to be considered at, and the venue, time and date for, the meeting. The Company may then proceed to hold the general meeting.

After the notice of the general meeting is issued, the general meeting shall not be postponed or canceled, and the proposals set out in such notice shall not be canceled without valid reasons. Where a general meeting has to be postponed or canceled, the convener shall state the relevant reasons at least 2 business days before the original date of the shareholders' general meeting.

Convening of General Meetings

All the shareholders or their proxies in the shareholders' register on the registered date for entitlements shall be entitled to attend the general meeting and exercise their voting rights according to relevant laws, regulations and the Articles of Association.

Shareholders may attend the general meeting in person or appoint a proxy to attend and vote on their behalf.

All directors, supervisors and the secretary to the board shall attend the general meeting of the Company, while the general manager and other senior management shall be present at the meetings.

Voting at and Resolutions of General Meetings

Resolutions of general meetings shall take the form of ordinary resolutions or special resolutions.

Ordinary resolutions adopted by the general meeting shall be passed by more than one half of the voting rights held by shareholders (including their proxies) attending the general meeting.

Special resolutions at a general meeting shall be passed by more than two-thirds of the voting rights held by shareholders (including their proxies) attending the general meeting.

The following matters shall be passed by way of an ordinary resolution at a general meeting:

(I) work reports of the board of directors and the Board of Supervisors;

(II) profit distribution plan and loss recovery plan formulated by the board of directors;

(III) appointment and dismissal of directors and members of the Board of Supervisors, their remuneration and method of payment thereof;

(IV) proposed annual preliminary financial budgets, final account proposals, balance sheets, statement of income and other financial statements of the Company;

(V) annual reports of the Company;

(VI) engagement or replacement of the accounting firm as the Company's auditors;

(VII) matters other than those requiring the approval by way of special resolutions in accordance with the laws, administrative regulations and the Articles of Association.

The following matters shall be passed by way of a special resolution at a general meeting:

(I) the increase or reduction of the registered capital and the issuance of any class of shares, share warrants and other similar securities by the Company;

(II) the issuance of corporate bonds;

(III) the division, merger, dissolution, liquidation or change of corporate form of the Company;

(IV) the amendment to the Articles of Association;

(V) the Company's purchases or disposals of material assets within one year or the amount of guarantee exceed 30% of the latest audited total assets of the Company;

(VI) repurchase of the Company's shares;

(VII) adoption share incentive plan;

(VIII) adjustments to profit distribution policies;

(IX) other matters required by laws, administrative regulations, the listing rules of the place where the shares of the Company are listed and the Articles of Association and those that the general meeting by way of an ordinary resolution concluded that may have a material impact on the Company and require adoption by way of a special resolution.

Save as provided by the Articles of Association otherwise, shareholders (including their proxies) exercise their voting rights according to the number of voting shares they represent. Each share shall carry one voting right unless otherwise required by the Articles of Association.

When the general meeting considers matters that could materially affect the interest of medium and small investors, to the extent technically feasible, the votes by medium and small investors shall be counted separately, and the results of such separate vote counting shall be disclosed promptly.

Shares held by the Company do not carry voting rights, and shall not be counted in the total number of voting shares represented by shareholders present at a general meeting.

When the general meeting considers connected transactions, the connected shareholders shall not vote. His/her shares held with voting rights will not be counted within the total number of valid votes. The public announcement on the voting results of the general meeting shall fully disclose the voting results of the non-connected party shareholders.

Special Procedures for Voting at Class meetings

Shareholders who hold different classes of shares shall be shareholders of different classes.

The Company shall not proceed to change or abrogate the shareholders' rights of a class of shares unless such change or abrogation has been approved by way of a special resolution at the general meeting and at a separate class meeting by the shareholders of the affected class in accordance with the Articles of Association.

The rights of shareholders of a certain class shall be deemed to have been changed or abrogated in the following circumstances:

(I) an increase or decrease in the number of shares of such class or an increase or decrease in the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

(II) conversion of all or part of the shares of such class into shares of another class or conversion of all or part of the shares of another class into shares of such class or the grant of the rights to such conversion;

(III) a removal or reduction of rights to accrued dividends or cumulative dividends attached to the shares of such class;

(IV) a removal or reduction of a dividend preference or property distribution preference during the liquidation of the Company, attached to the shares of such class;

(V) an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, preemptive rights or rights to acquire the securities of the Company attached to the shares of such class;

(VI) a removal or reduction of rights to receive amounts payable by the Company in a particular currency attached to the shares of such class;

(VII) creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;

(VIII) an imposition of restrictions or additional restrictions on the transfer of or ownership of the shares of such class;

(IX) an issuance of rights to subscribe for, or convert into, the shares of such class or another class;

(X) an increase in the rights and privileges of the shares of another class;

(XI) a restructuring plan of the Company that causes shareholders of different classes to bear liability to different extents during the restructuring;

(XII) any amendment to or repeal of the provisions of this section.

Shareholders of the affected class, whether or not having the rights to vote at the general meeting, shall have the rights to vote at class meetings in respect of matters referred to in paragraphs (II) to (VIII), (XI) and (XII) above, except that interested shareholders shall not vote at class meetings.

Resolutions of a class meeting may be passed only by more than two-thirds of the voting rights of that class represented by shareholders attending the class meeting in accordance with the Articles of Association.

The special procedures for voting in the class meetings shall not apply under the following circumstances:

(I) where the Company issues domestic shares and overseas listed shares, upon approval in the form of a special resolution by its shareholders at a general meeting, either separately or concurrently, once every 12 months and the number of each of the domestic shares and overseas listed shares to be issued is not more than 20% of the same type of shares in issue;

(II) where the Company's plan to issue domestic shares and overseas listed shares upon its incorporation is implemented within 15 months from the date of approval by the securities regulatory authorities under the State Council;

(III) where holders of domestic shares of the Company transfer their shares to foreign investors and have them listed on overseas stock exchange, or converting into overseas listed shares, with the approval of the securities regulatory authorities under the State Council.

Directors and Board of Directors

Directors

Directors of the Company are natural persons.

If a director is elected, appointed in violation of the provisions of the Articles of Association, such election, appointment or engagement shall be invalid.

Directors shall be elected or changed by the general meeting and serve a term of three years. A director may serve consecutive terms if re-elected upon the expiry of his/her term.

A director's term of service commences from the date he takes office, until the current term of service of board of directors ends. If a director's term of service expires but a new director is not elected in a timely manner, the original director shall continue to carry out the director's duties according to the laws, administrative regulations, departmental rules and the Articles of Association until the newly elected director takes office.

A director's post may be assumed by the general manager or other senior management, but the total number of directors who also assume the duties of the general manager or other senior management shall not exceed one half of the total number of directors of the Company. No employee representatives are to be appointed as directors on the board of directors.

It is not necessary for directors to hold shares of the Company.

The directors shall comply with the laws, administrative regulations, listing rules of the place where the shares of the Company are listed and the Articles of Association and shall perform the following fiduciary duties to the Company:

(I) not to abuse their rights to take any bribe or other illegal income and not to misappropriate the properties of the Company;

(II) not to misappropriate the money of the Company;

(III) not to deposit any assets or funds of the Company in any accounts under their names or in the names of other persons;

(IV) not to loan the funds of the Company to others or use the Company's properties to provide guarantee to others in violation of the Articles of Association without the approval of the general meetings or the board of directors;

(V) not to enter into contracts or deal with the Company in violation of the Articles of Association or without approval of the general meeting;

(VI) not to seek, for the benefit of their own or others, any business opportunity of the Company by taking advantage of their powers, or to run his/her own or others' business which is of the same type as that of the Company without approval of the general meeting;

(VII) not to accept commissions in relation to transactions between any third party and the Company;

(VIII) not to disclose the secrets of the Company without authorization;

(IX) not to prejudice the interests of the Company by using their affiliation;

(X) to exercise their powers within the range of their duties without exceeding;

(XI) not to seek gains for themselves or others by using inside information;

(XII) to fulfill other fiduciary duties stipulated by the laws, administrative regulations, departmental rules and the Articles of Association.

The Company shall be entitled to the income gained by the directors from any of the acts that are in violation of this Article; the director shall be liable for compensation if any loss is caused to the Company.

The directors shall comply with the laws, regulations, listing rules of the place where the shares of the Company are listed and the Articles of Association and shall bear the following obligations to the Company:

(I) to exercise prudently, conscientiously and diligently the rights granted by the Company to ensure that the Company's commercial operations are in compliance with the laws, administrative regulations and the requirements of economic policies of China and within the scope stipulated in the business license;

(II) to treat all shareholders equally and fairly;

(III) to understand the operation and management of the Company in a timely manner;

(IV) to approve regular reports of the Company in written form and to ensure the integrity, accuracy and completeness of the information disclosed by the Company;

(V) to provide all relevant information and materials required by the Board of Supervisors and to accept the lawful supervision and rational suggestions of the Board of Supervisors on their performance of duties, and shall not intervene the performance of duties of the Board of Supervisors or supervisors;

(VI) to perform other obligations of diligence stipulated by the laws, administrative regulations, departmental rules and the Articles of Association.

A director shall be deemed as ineligible if such director fails to attend two consecutive board meetings in person or by proxy. The board of directors shall propose to the general meeting for termination of the director's office.

A director may resign before expiry of his/her term of service. The director shall submit a written resignation notice to the board of directors. The board of directors shall make relevant disclosure within two days.

If the number of members of directors falls below the minimum statutory requirement due to a director's resignation, the former directors shall still perform their duties as directors in accordance with the requirements of laws, administrative regulations, departmental rules and the Articles of Association before the appointment of the re-elected directors.

Save for the circumstances referred to above, the director's resignation takes effect upon the delivery of his/her resignation report to the board of directors.

When a director's resignation takes effect or his/her term of service expires, the director shall complete all handover procedures with the board of directors. The director's fiduciary duties towards the Company and the shareholders do not necessarily cease after the end of his/her term of service and shall remain effective within two years thereafter. The duty of confidentiality in respect of trade secrets of the Company shall still be in effect after the end of his/her term of office, until such trade secrets become publicly available information. Other duties may continue for such period as the principle of fairness may require, depending on the length of time which has elapsed between the occurrence of the event concerned and the termination of tenure, and the circumstances and terms under which the relationship between the director and the Company has been terminated.

A director of the Company shall be personally liable for any loss suffered by the Company as a result of a violation by such director of any of the above provisions.

Unless legally authorized by the Articles of Association or the board of directors, no director shall act on behalf of the Company or the board of directors in his/her own name. When a director acts in his/her own name and a third party reasonably considers such director acts on behalf of the Company or the board of directors, such director shall declare in advance his/her position and capacity.

Directors who are in breach of laws, administrative regulations, departmental rules or the Articles of Association in the course of performing their duties shall be liable to compensate the Company for any loss so caused.

Independent Non-executive Directors

The Company's board of directors shall include independent non-executive directors. There shall be no less than three (3) independent non-executive directors and they shall constitute no less than one-third (1/3) members of the board of directors. At least one independent non-executive director shall possess the appropriate professional qualifications or have appropriate accounting or related financial management expertise and one independent non-executive director shall reside in Hong Kong.

Apart from the qualifications and obligations of directors provided in the relevant provisions in the Articles of Association, an independent non-executive director shall also meet the following requirements:

(I) shall have the time and capacity necessary for the performance of his/her duties as an independent non-executive director;

(II) shall meet the independence provisions as required by the securities regulatory authorities and the stock exchanges of the place where the Company's shares are listed.

The duties and other related matters of independent non-executive directors shall be performed in accordance with the relevant provisions of the laws, administrative regulations, departmental rules and the listing rules of the place where the Company's shares are listed.

Board of Directors

The Company shall have a board of directors accountable to the general meeting.

The board of directors consists of 9 to 12 directors. The board of directors shall have a chairman and a vice chairman.

The board of directors shall perform the following duties:

(I) to convene general meetings and to report its work thereto;

(II) to implement the resolutions of general meetings;

(III) to determine business operation plans and investment plans of the Company;

(IV) to formulate annual preliminary and final financial budgets of the Company;

(V) to formulate the profit distribution plans and loss recovery plans of the Company;

(VI) to formulate the adjustment scheme for the profit distribution policies of the Company;

(VII) to formulate proposals Company regarding increase or reduction of the registered capital, issuance of bonds or other securities and listing of the Company;

(VIII) to formulate plans for any material acquisition by the Company, repurchase of the shares or merger, division and change of the form and dissolutions of the Company;

(IX) to decide on matters relating to the Company's external investment, acquisitions or disposal of assets, pledges of assets, external guarantee, writing off of assets, disposal of non-performing assets, entrusted wealth management and connected transactions as authorized by general meetings;

(X) to decide on the establishment of the Company's internal management structure and branches;

(XI) to appoint or dismiss the Company's general manager, secretary of the board of directors and, based on the nominations of the general manager, to appoint or dismiss deputy general managers, chief financial officer and other senior management and to determine their remuneration, rewards and penalties;

(XII) to formulate the basic management system of the Company;

(XIII) to formulate proposals for any amendments to the Articles of Association;

(XIV) to formulate share incentive plans;

(XV) to prepare proposals on the amount and distribution method of emoluments of directors for approval at the general meeting;

(XVI) to manage the disclosure of information of the Company;

(XVII) to propose to general meetings the appointment or replacement of the accounting firm acting as the auditor of the Company;

(XVIII) to hear the work report of the Company's general manager and to review the work of the general manager;

(XIX) to review and determine the risk appetite and other material risk management policies;

(XX) any other powers as conferred by the laws, administrative regulations, departmental rules, the listing rules of the place where the shares of the Company are listed and the Articles of Association.

Matters beyond the scope authorized by the general meeting shall be submitted to the general meeting for decisions.

Any resolution made by the board of directors, except as otherwise provided in the Company's Articles of Association, shall be passed by more than half of all directors. However, resolutions of board of directors relating to matters specified in (VII), (VIII) and (XIII) above and important matters (including: the increase or reduction of the registered capital by the Company; the division, merger, dissolution, liquidation or change of corporate form of the Company; the Company's purchases or disposals of material assets or the provision of guarantees within one year, which amount to more than 30% of the latest audited total assets of the Company; repurchase of shares of the Company; external guarantee; other matters required by laws, administrative regulations or the Articles of Association and those that the board of directors, by way of an ordinary resolution, concluded that may have a material impact on the Company and require adoption by way of a special resolution) shall be passed by more than two-thirds of all directors.

The board of directors shall explain to the general meeting regarding the non-standard auditors' opinion given by certified accountant in relation to the financial report of the Company.

The board of directors shall formulate the Rules of Procedure for Board meetings to ensure the implementation by the board of directors of the resolutions of general meeting, to improve work efficiency and to ensure sound decision-making.

The chairman and the vice chairman of the board of directors shall be directors of the Company and elected and removed from office with approval of more than half of all the directors.

The chairman of the board of directors shall perform the following duties:

(I) to preside over general meetings and to convene and preside over board meetings;

(II) to supervise and examine the implementation of resolutions passed by the board of directors;

(III) to execute the securities issued by the Company in accordance with provisions of the securities regulatory authorities and the stock exchange of places where shares of the Company are listed;

(IV) to perform other duties entrusted by the board of directors.

The board of directors shall convene at least two regular meeting in the first half and second half of the year respectively. Such meetings shall be convened by the chairman of the board of directors and notice thereof shall be given to all directors and supervisors 14 days before the meeting.

Under any of the following circumstances, the board of directors shall convene an extraordinary meeting:

(I) when deemed necessary by the chairman;

(II) when proposed by shareholders representing over 10% of the voting rights;

(III) when jointly proposed by more than one third of the directors;

(IV) when proposed by the Board of Supervisors;

(V) when in any other circumstance specified in laws, administrative regulations, departmental rules, rules of stock exchanges and the Articles of Association.

The chairman of the board of directors shall convene and preside over a board meeting within 10 days upon receipt of such proposal referred to in item (II) to item (IV) above.

The notice to convene an extraordinary board meeting shall be delivered in any of the following manners: delivery by person, by fax, by mail or otherwise; the time limit for notification shall be: at least five days in advance.

A board meeting shall be held only when more than half of the directors attend the meeting.

If any director has connection with the entity involved in the resolution of a board meeting, the director shall abstain from voting on the matter and shall not vote on behalf of other directors. The board meeting may be held when more than half of the directors having no connection with the entity attend the meeting. The resolution of the board meeting 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 three, the matter shall be submitted to the general meeting for approval.

Directors shall attend board meetings in person. Where a director is unable to attend a board meeting for reasons, the director may authorize in writing another director to attend on his/her behalf.

The board of directors shall keep minutes of the matters discussed in the meeting. The attending directors shall sign on the minutes of the meeting. Any attending director shall be entitled to have explanatory notes in the minutes regarding his speech at the meeting.

The directors shall be responsible for the resolutions passed at board meetings. If any resolution runs counter to the laws, administrative regulations or the Articles of Association, and causes material losses to the Company, directors adopting the said resolution shall be liable for compensation to the Company. If any director expressed a disagreement to the resolution and the said disagreement has been recorded in the minutes, the said director may be exempt from any liability.

The minutes of board meetings shall be kept as archives of the Company for a period of no less than 10 years.

Board Committees of the Board of Directors

The board of directors shall establish certain committees. Each committee shall be accountable for the board of directors, and shall submit their work reports to the board of directors in accordance with the Articles of Association and submit their proposals to the board of directors for examination and making decision.

Each committee of the board of directors shall formulate the work rules and submit the same to the board of directors for approval before becoming effective.

The board of directors shall listen to the opinions of the committees before making any decision on matters related to the duties of the committees.

General Manager and Other Senior Management

The Company shall have one general manager, certain deputy general managers, one chief financial officer and one secretary to the board of directors who shall be appointed or dismissed by the board of directors. The directors may hold the position of general manager, deputy general manager or other senior management unless otherwise stipulated in the Articles of Association.

A person holding other duties other than directorship in any of the Company's controlling shareholders and de facto controllers shall not hold the office of a senior management of the Company.

The general manager shall be appointed for the tenues of three years and may be reappointed.

The general manager shall be accountable to the board of directors and shall exercise the following functions and powers:

(I) to be in charge of the management of the production and operations of the Company and to organize the implementation of the resolutions of the board of directors and to report to the board of directors;

(II) to organize the implementation of the Company's annual business plans and investment plans;

(III) to draft the plan for establishment of the Company's internal management organization;

(IV) to draft the Company's basic management system;

(V) to formulate the specific rules and regulations of the Company;

(VI) to propose the appointment or dismissal of the deputy general manager(s) and chief financial officer of the Company;

(VII) to decide the hiring or dismissal of the management personnel other than those to be hired or dismissed by the board of directors;

(VIII) other powers conferred by the Company's Articles of Association and the board of directors.

The general manager shall attend the board meetings.

The Company shall have one secretary to the board of directors.

The secretary to the board of directors should be a natural person who have the requisite professional knowledge and experience and shall be appointed by the board of directors. The secretary to the board of directors shall mainly perform the following duties:

(I) to be responsible for the preparation of the general meetings and board meetings;

(II) to ensure the Company has complete organizational documents and records;

(III) to ensure the preparation and submission of reports and documents as required by the competent authorities in accordance with the laws;

(IV) to ensure proper establishment of the register of shareholders of the Company, and the timely access to the Company's relevant records and documents of persons entitled to such records and documents;

(V) to handle the matters relating to information disclosure of the Company.

A director or senior management of the Company may concurrently act as the secretary to the board of directors. The accountant of the accounting firm appointed by the Company shall not act as secretary to the board of directors of the Company.

Senior management who are in breach of laws, administrative regulations, departmental rules or the Articles of Association in the course of performing their duties shall be liable to compensate the Company for any loss so caused.

Supervisors and Board of Supervisors

Supervisors

The qualifications of supervisors shall comply with the provisions of relevant laws and regulations and the Articles of Association.

Directors, the general manager and other senior management personnel may not concurrently serve as supervisors.

The term of the Board of Supervisors shall be three years. Supervisors may be re-elected upon expiry of the term.

Where timely re-election fails upon expiry of the term of supervisors or resignation is received from any supervisor during his term of office, as a result of which the number of supervisors is less than the minimum number of supervisors required by law, the original supervisors shall, prior to the assumption of office by the newly elected supervisors, perform their duties in accordance with the laws, administrative regulations and the provisions of the Articles of Association. Supervisors may attend board meetings, and raise questions or proposals regarding resolutions of the board meetings.

Supervisors who are in breach of laws, administrative regulations, departmental rules and the Articles of Association in the course of performing their duties shall be liable to compensate the Company for any loss so caused.

Board of Supervisors

The Company shall establish a Board of Supervisors, which comprises nine supervisors. The Board of Supervisors shall have one chairman and one vice chairman. The appointment and dismissal of the chairman and the vice chairman of the Board of Supervisors shall be resolved by more than two-thirds of the supervisors of the Board of Supervisors. The chairman of the Board of Supervisors shall convene and preside over the meetings of the Board of Supervisors. If the chairman of the Board of Supervisors cannot or fails to perform his duties, the vice chairman of the Board of Supervisors shall convene and preside over the meetings of the Board of Supervisors. If the vice chairman of the Board of Supervisors cannot or fails to perform his duties, one supervisor shall be elected jointly by more than half of the supervisors to convene and preside over the meeting of the Board of Supervisors.

The Board of Supervisors shall include supervisors representing the shareholders and an appropriate proportion of supervisors representing the employee of the Company. The proportion of employee representatives of the Board of Supervisors shall not be less than one-third of the total number of the supervisors. The employee representatives of the Board of Supervisors shall be elected by the Company's employee through general meetings of employee representatives, employee general meetings or other democratic means.

The Board of Supervisors shall be accountable to the general meeting and shall perform the following duties:

(I) to review the Company's periodical reports prepared by the board of directors and to provide comments in writing;

(II) to review the Company's financial condition;

(III) to supervise the conducts of the directors and senior management in discharge of their duties and to advise on the dismissal of any director and senior management who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the general meetings;

(IV) to demand rectification from the directors and senior management of the Company where their conducts are in breach of laws, administrative regulations or the Articles of Association or detrimental to the interests of the Company, shareholders or customers;

(V) to propose to convene an extraordinary general meeting, and to convene and preside over the general meeting where the board of directors fails to perform its duties to convene or preside over a general meeting as required under the Company Law;

(VI) to propose motions at a general meeting;

(VII) to take legal actions against directors and senior management in accordance with Article 151 of the Company Law;

(VIII) to conduct investigations whenever unusual conditions in the operation of the Company arise and, if necessary, to engage professional institutions such as accounting firms and law firms to assist in their work with expenses to be borne by the Company;

(IX) to examine the financial information such as the financial reports, business reports and plans for profit distribution to be submitted by the board of directors to the general

meetings, and to engage, on behalf of the Company, certified accountants and auditors to review such financial information whenever queries arise;

(X) other duties as stipulated by laws, administrative regulations, departmental rules, statutory documents and the Articles of Association.

The Board of Supervisors shall meet at least once in every six months. Supervisors can propose to convene an extraordinary Board of Supervisors meeting.

The resolution made by the Board of Supervisors shall be approved by more than two thirds of the members of the Board of Supervisors.

The discussed matters shall be recorded in the minutes of the meeting of the Board of Supervisors, which can be audio-recorded. Supervisors and recorders attending the meeting shall sign on the minutes of meetings.

Supervisors are entitled to request that an explanatory notes of their comments made at the meetings be recorded in the minutes. Minutes of meeting of the Board of Supervisors shall be kept as company archives for at least ten years.

Qualifications and Obligations of the Company's Directors, Supervisors and Senior Management

The following persons shall not serve as directors, supervisors, manager or other senior management of the Company:

(I) persons without civil capacity or with limited civil capacity;

(II) persons who have committed offenses relating to corruption, bribery, embezzlement of property, misappropriation of property or disruption of socialist economic order and have been sentenced to criminal punishment, where less than five years has elapsed since the date of enforcement, or who have been deprived of their political rights due to the commission of a criminal offense, where less than five years has elapsed since the date of enforcement;

(III) persons who were former directors, factory managers or managers of a company or enterprise which was declared bankrupt due to mismanagement and was liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than three years has elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;

(IV) persons who were legal representatives of a company or enterprise which had its business license revoked and was ordered to close down due to violation of the law and who were personally liable, where less than three years has elapsed since the date of the revocation;

(V) persons who have a substantial amount of debts due and outstanding;

(VI) persons who are imposed by the CSRC a ban from entering into the securities market for a period which has not yet expired;

(VII) persons who are under investigation of the judicial authority due to breach of criminal laws and the case is not closed;

(VIII) persons who are prohibited from acting as a leader of an enterprise by laws or administrative regulations;

(IX) persons other than a natural person;

(X) persons who has been convicted by the competent authority for violation of securities regulations by acting fraudulently or dishonestly, where less than five years has elapsed since the date of the conviction;

(XI) other circumstances specified by the laws, regulations or listing rules of the place where the shares of the Company are listed.

The directors, supervisors, managers and other senior management of the Company shall perform their duties in accordance with the principle of fiduciary and shall not put themselves in a position where their duties and their interests may conflict. These principles include (but not limited to) the following:

(I) to act honestly in the best interests of the Company;

(II) to exercise powers within the scope of his/her powers;

(III) to exercise the discretion vested in him personally and not to allow himself/herself to act under the control of another and, unless and to the extent permitted by the laws, administrative regulations or with the informed consent of shareholders at general meetings, not to delegate others to exercise his/her discretion;

(IV) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

(V) unless otherwise provided by the Articles of Association or with the informed consent of Shareholders at general meeting, not to enter into any contract, transaction or arrangement with the Company;

(VI) without the informed consent of shareholders at general meeting, not to use the Company's property for his/her own benefit in any form;

(VII) not to exploit his/her position to accept bribes or other illegal income or expropriate the Company's property by any means, including but not limited to opportunities advantageous to the Company;

(VIII) without the informed consent of shareholders at general meeting, not to accept commissions in connection with the Company's transactions;

(IX) to abide by the Articles of Association, perform his/her official duties faithfully and protect the Company's interests, and not to exploit his/her position and power in the Company for his/her own interests;

(X) not to compete with the Company in any way unless without the informed consent of shareholders at general meeting;

(XI) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his/her own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets;

(XII) unless otherwise permitted by informed shareholders at general meeting, to keep in confidence the confidential information relating to the Company acquired by him in

the course of and during his/her tenure and not to use such information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other government authorities is permitted if:

1. disclosure is required by law;
2. in the interests of the public;
3. in the interest of the relevant directors, supervisors, managers and other senior management.

The fiduciary duties of the directors, supervisors, managers and other senior management of the Company may not cease with the termination of their tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairly required depending on the time lapse between the act concerned and the termination and the circumstances and conditions under which the relationships between them and the Company are terminated.

Unless otherwise provided by the Articles of Association, directors, supervisors, managers and other senior management of the Company may be relieved of liability for specific breaches of duties by the informed consent of shareholders at a general meeting.

Where a director, supervisor, manager and other senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his/her contract of service with the Company), he/she shall declare the nature and extent of his/her interests to the board of directors at the earliest opportunity, whether or not the related matters under normal circumstances is otherwise subject to the approval of the board of directors.

The Company shall not in any manner pay taxes for or on behalf of a director, supervisor, manager and any other senior management.

The Company shall not directly or indirectly extend a loan to or provide any guarantee to a director, supervisor, manager and other senior management of the Company or of the Company's parent company or any of their respective associates. The following transactions are not subject to the above prohibition:

(I) the provision by the Company of a loan or a guarantee of a loan to its subsidiaries;

(II) the provision by the Company of a loan or a guarantee of a loan or any other funds to any of its directors, supervisors, managers and other senior management to meet expenditure incurred by him for the purposes of the Company or for the purpose of enabling him to perform his/her duties, in accordance with the service contract approved by the general meeting;

(III) the Company may make a loan to or provide a loan guarantee to any of the relevant directors, supervisors, managers and other senior management or their respective associates on normal commercial terms, provided that the ordinary course of business of the Company should include the lending of money or the provision of loan guarantees.

A loan made by the Company in breach of the preceding Article shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A loan guarantee provided by the Company in breach of provisions shall not be enforceable against the Company unless:

(I) the guarantee was provided in connection with a loan to an associate of any of directors, supervisors, managers and other senior management of the Company or its parent company and the lender were not aware of the relevant circumstances;

(II) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor, manager or other senior management of the Company is in breach of his/her duties to the Company, the Company has rights to:

(I) claim damages from the director, supervisor, manager and other senior management in compensation for losses incurred by the Company as a result of such breach;

(II) rescind any contract or transaction entered into by the Company with the directors, supervisors, managers and other senior management, and with a third party (where such third party knows or should know that there is such a breach of duties to the Company by such directors, supervisors, managers and other senior management representing the Company);

(III) demand an account of the profits made by the directors, supervisors, managers and other senior management in breach of his/her duties;

(IV) recover any monies received by the directors, supervisors, managers and other senior management which should otherwise have been received by the Company, including but not limited to commissions;

(V) request the directors, supervisors, managers and other senior management to return the interests accrued or may be accrued on the monies which should have been paid to the Company.

The Company shall enter into a contract in writing with a director or supervisor to determine his/her emoluments subject to prior approval of the general meeting.

Financial and Accounting System and Profit Distribution

Financial and Accounting System

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and the requirements of relevant regulatory departments of the PRC.

The Company shall submit its annual financial and accounting reports to the CSRC and the stock exchange(s) in the place where the shares of the Company are listed within four months from the ending date of each fiscal year, submit the half-year financial and accounting reports to the local office of the CSRC and the stock exchange(s) in the place where the shares of the Company are listed within two months from the ending date of the first six months of each fiscal year, and submit the quarterly financial reports to the local office of the CSRC and the stock exchange(s) in the place where the shares of the Company are listed within one month from the ending dates of the first three and first nine months of each fiscal year respectively.

The above financial reports are prepared in accordance with laws, administrative regulations and the provisions of departmental rules.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC Accounting Standards for Business Enterprises and regulations, be prepared in accordance with either international accounting standards, or those of the place outside China where the shares of the Company are listed. If there is any material difference between the financial statements prepared in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profits for relevant accounting years, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

The Company shall disclose two financial reports in each accounting year, i.e., its interim financial reports within 60 days of the end of the first six months of an accounting year and its annual financial reports within 120 days after the end of the accounting year.

Other regulations of the securities regulatory authorities at the place where the shares of the Company are listed shall prevail.

Profit Distribution

When distributing each year's after-tax profits, the Company is required to set aside 10% of its profits into its statutory reserve fund. When the cumulated amount of the statutory reserve fund of the Company has reached 50% or more of its registered capital, no further allocations is required.

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the Articles of Association.

If the general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the shareholders before the Company has made up for its losses and made allocations to the statutory reserve fund and statutory reserve, the shareholders must return the profits distributed in violation of the provision to the Company. No profits shall be distributed in respect of the shares held by the Company.

The Company's reserve fund shall be applied to offset losses of the Company, expand its business operations or to increase the registered capital of the Company. However, the capital reserve fund may not be applied to offset the Company's losses.

Capital reserve includes the following items:

(I) premium on shares issued at a premium price;

(II) any other income designated for the capital reserve by the regulations of the finance regulatory department of the State Council.

If the statutory reserve is converted into capital, the balance of the statutory reserve shall not fall below 25% of the Company's registered capital before the increase of the capital.

Subject to the relevant PRC laws, regulations, rules and normative documents, the Company may exercise the power to forfeit unclaimed dividends, provided that it does so only after the expiration of the applicable relevant period.

The Company has the power to cease sending dividend warrants by post to a holder of overseas listed shares, but may exercise such power only if such warrants fail to be redeemed for two consecutive occasions. However, the Company may exercise such power after the first occasion on which such a warrant is returned and undelivered.

On the premise of compliance with applicable laws and regulations, the Company shall have the power to sell, in such manner as the board thinks fit, any shares of a shareholder of overseas listed foreign invested shares who is untraceable subject to the following conditions:

(I) the Company has distributed dividends at least three times in respect of such shares within 12 years, but none of such dividends was claimed;

(II) the Company, after the expiration of a period of 12 years, made an announcement on one or more newspapers in the place where the shares of the Company are listed, stating its intention to sell such shares, and notified the securities regulatory authority of the place where the shares of the Company are listed of such intention.

If the Company needs to adjust the existing profit distribution policy due to its production and operation status, investment planning and long-term development, the profit distribution policy after adjustment may not be in violation of the relevant provisions of the CSRC and Shenzhen Stock Exchange. The proposal related to the adjustment made to the profit distribution policy, after approved by the board of directors, shall be submitted to the general meeting for approval.

The Company shall appoint receiving agents on behalf of the holders of overseas listed foreign invested shares to receive on behalf of such shareholders dividends declared and all other monies owing by the Company in respect of such shares.

The receiving agents appointed by the Company shall meet the requirements of the laws or the relevant provisions of the stock exchanges in the place where the Company is listed.

The receiving agents appointed on behalf of holders of overseas listed foreign invested shares listed in the Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Internal Audit

The Company shall conduct internal audit system and assign full-time auditors to conduct internal audit and supervision on the revenues and expenditures and economic activities of the Company.

The internal audit system and the duties of the auditing staff of the Company shall come into effect upon the approval of the Board. The officer-in-charge of the audit team shall be responsible to and report to the Board.

Engagement of Accounting Firm

The Company shall engage an accounting firm which is qualified under the relevant regulations of the place where shares of the Company are listed, to audit the Company's financial statements, verify net assets and provide other relevant consultation services. The engagement shall be one year and may be renewed.

The accounting firm to be engaged by the Company shall be determined by general meetings and the board of directors shall not engage such accounting firm before the general meeting has made its decision.

The accounting firm engaged by the Company shall have the following rights:

(I) to inspect the accounting books, records and vouchers of the Company at any time; to require the directors, manager or other senior management of the Company to provide relevant information and explanation;

(II) to require the Company to take all reasonable steps to obtain from the Company's subsidiaries such information and explanation as are necessary for the purpose of discharging its duties;

(III) to attend the general meetings and to receive all notices of, and other information relating to, the meeting that any shareholder is entitled to, and to speak at any general meeting in relation to matters concerning its role as the Company's appointed accounting firm.

The remuneration of an accounting firm or the method for determining the remuneration shall be determined by the general meetings. The remuneration of an accounting firm appointed by the board of directors shall be determined by the board of directors.

30 days' prior notice shall be given to the accounting firm if the Company decides to remove such accounting firm or not to renew the appointment thereof. The accounting firm shall be entitled to make representations when the resolution regarding the removal of the accounting firm is considered at the general meeting of the Company.

Where the accounting firm resigns, it shall make clear to the general meeting whether there is any impropriety on the part of the Company.

An accounting firm may resign by depositing a written resignation notice at the legal address of the Company. The resignation notice shall become effective on the date of such deposit or on such later date stipulated in such notice. Such notice shall contain the following statements:

(I) a statement to the effect that there are no circumstances in connection with its resignation which should be brought to the notice of the shareholders or creditors of the Company;

(II) a statement of other circumstances considered necessary.

Where the accounting firm's notice of resignation contains a statement regarding any accountable affair, it may require the board of directors to convene an extraordinary general meeting for the explanation of the circumstances regarding to its resignation.

Notice and Announcement

Notice

A notice of the Company shall be sent by:

(I) hand;

(II) mail;

(III) announcement;

(IV) telephone, fax or email;

(V) making announcement in the Company's website or the websites designated by stock exchange in accordance with the laws, administrative regulations, departmental rules, statutory documents, requirements of relevant regulatory authorities, the Articles of Association and listing rules of the place where the shares of the Company are listed;

(VI) other means agreed by the Company or the recipient of the notice in advance or recognized by the recipient of the notice after receiving such notice;

(VII) other means recognized by regulatory authorities of the place where the shares of the Company are listed or stated in the Articles of Association.

Pursuant to the Hong Kong Listing Rules, and subject to the laws and regulations and listing rules of the place where the shares of the Company are listed as well as the Articles of Association, corporate communications may be provided or sent to holders of H shares by making announcement on the websites designated by the Company and/or the websites of the Hong Kong Stock Exchange or by electronic means.

Announcement

The Company shall issue announcements and disclose information to the holders of domestic shares through the newspapers and periodicals and websites for information disclosure designated by laws and regulations or the securities regulatory authorities of China. If it is required to make public announcements to the holders of overseas listed shares pursuant to the Articles of Association, such announcements shall also be published in such manner as required by the Hong Kong Listing Rules.

Merger, Division, Capital Increase, Capital Reduction, Dissolution and Liquidation

Merger, Division, Capital Increase and Capital Reduction

Merger of the Company may take the form of absorption or establishment of a new company.

The merger or division of the Company shall be proposed by the board of directors, and upon approval at the general meeting in accordance with the procedures provided in the Articles of Association, it shall go through relevant examination and approval formalities according to the laws. A shareholder objecting to merger or division of the Company may require the Company or the shareholders who are in favor of such merger or division to acquire his/her shares at a fair price.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days from the date of the Company's merger resolution and shall publish an announcement in the newspapers designated by the Articles of Association for information disclosure purpose within 30 days from the date of the Company's merger resolution. A creditor has the rights, within 30 days of receiving such notice from the Company or, for creditors who do not receive the notice, within 45 days from the date of the public notice, to demand the Company to settle its debts or provide a guarantee for such debt.

Upon the merger of the Company, claims and debts of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.

When the Company is divided, its assets shall be split up accordingly.

In the event of a division, the Company shall prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days from the date of the Company's resolution to divide and shall publish an announcement in the newspapers designated by the Articles of Association for information disclosure purpose within 30 days from the date the Company made a resolution to divide.

Debts of the Company prior to division shall be jointly assumed by the companies which exist after the division, except provided otherwise in the written agreement between the Company and the creditors relating to the settlement of debt before the division.

Where the Company is required to reduce its registered capital, it shall prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days from the date of the resolution for reduction of registered capital and shall publish an announcement in the newspapers designated by the Articles of Association for information disclosure purpose within 30 days from the date of such resolution. A creditor has the rights, within 30 days after receipt of the notice or, in the case of a creditor who does not receive such notice, within 45 days from the date of the announcement, to demand the Company to repay its debts or to provide a guarantee for such debt.

Where a merger or division of the Company involves any changes to any registration, an application for modification of registration shall be made to the registration authorities in accordance with the laws. Cancelation of a company shall be registered in accordance with the laws when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated in accordance with the laws.

When increasing or reducing the registered capital, the Company shall register the changes with company registration authorities in accordance with the laws.

Dissolution and Liquidation

The Company shall be dissolved upon the occurrence of the following events:

(I) the term of its operations set out in the Articles of Association has expired or other events of dissolution specified in the Articles of Association have occurred;

(II) a resolution on dissolution is passed by shareholders at a general meeting;

(III) dissolution is necessary due to the merger or division;

(IV) the Company is legally declared bankrupt due to its failure to repay debts due;

(V) the Company's business license is revoked or the Company is ordered to close down or de-registered according to laws;

(VI) where the Company gets into serious trouble in operation and management and its continuation may cause substantial loss to the interests of shareholders, and no solution can be found through any other channel, shareholders representing more than 10% of the voting rights of all shareholders of the Company may apply to the People's Court to dissolve the Company.

Where the Company is dissolved in accordance with items (I), (II) and (VI) above, a liquidation committee shall be established to commence liquidation within 15 days from the date of occurrence of events giving rise to dissolution. The members of the liquidation committee shall be determined by the directors or the general meeting. In case no liquidation committee is established within the specified period to commence liquidation, the creditors may apply to the People's Court to designate relevant persons to form a liquidation committee and commence liquidation.

Upon adoption of the resolution to liquidate the Company at the general meeting, the functions and powers of the board of directors shall cease immediately.

The liquidation team shall exercise the following functions and powers during the period of liquidation:

(I) informing creditors by a notice or public announcement;

(II) liquidating the properties of the Company, and preparing the balance sheets and inventory of assets separately;

(III) disposing of and liquidating the ongoing businesses of the Company;

(IV) settling the outstanding taxes and the taxes incurred from the process of liquidation;

(V) settling credits and debts;

(VI) disposing the surplus properties after settling the Company's debt;

(VII) representing the Company in any civil proceedings.

The liquidation team shall, within 10 days of its formation, notify the creditors, and shall, within 60 days, make a public announcement on the newspaper designated by the Articles of Association for information disclosure purpose. Creditors shall, within 30 days of the receipt of the notice or within 45 days of the release of the public announcement in the case of failure to receive said notice, file their creditors' rights with the liquidation team.

Where creditors file their creditors' rights, they shall explain about the matters related to creditors' rights, and shall provide the evidentiary materials. The liquidation team shall register the creditors' rights.

The liquidation team may not settle any of the debts of any creditors during the period of filing creditors' rights.

After the liquidation team has liquidated the assets of the Company and has prepared the balance sheets and inventory of assets, it shall prepare a plan of liquidation, and report it to the general meeting or the People's Court for confirmation.

The remaining assets after paying off the liquidation expenses, wages of employees, social insurance premiums and statutory compensation, the outstanding taxes and the debts of the Company may be distributed in proportion to shareholding of the shareholders.

During the period of liquidation, the Company continues to exist but may not carry out any business operation that is not related to liquidation. The Company's assets shall not be distributed to shareholders before the settlement of debts in accordance with the proceeding provision.

Should the liquidation team find that the properties of the Company are insufficient for settling the debts after liquidating the properties of the Company, preparing the balance sheets and inventory of assets, it shall apply to the People's Court to declare the Company's bankruptcy pursuant to laws.

Once the People's Court declares the bankruptcy of the Company, the liquidation team shall hand over the liquidation matters to the People's Court.

Following the completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report, a income and expenditure statement and the financial accounts in respect of the liquidation period and, after verification thereof by a certified public accountant in China, such committee shall submit the same to the general meeting or relevant competent authorities for confirmation.

Within 30 days from the date of said confirmation made by the general meeting or relevant competent authorities, the liquidation committee shall submit aforementioned documents to the company registration authority to apply for cancellation of the Company, and to announce that the Company is terminated.

Amendment to Articles of Association

Under any one of the following circumstances, the Company shall amend its Articles of Association:

(I) there is a conflict between requirements of the Articles of Association and those in the laws and administrative regulations or listing rules of the place where the shares of the Company are listed, after the amendment to the Company Law or relevant laws, administrative regulations or listing rules of the place where the shares of the Company are listed shall conflict with the amended laws;

(II) changes to the Company's situation which leads to the inconsistency with the matters recorded in the Articles of Association;

(III) the general meeting decides that the Article of Association should be amended.

Settlement of Disputes

The Company shall comply with the following rules in settling disputes:

(I) whenever any disputes or claims concerning the affairs of the Company arise from any rights or obligations as provided in the Articles of Association, the Company Law

and other relevant laws and administrative regulations between a holder of overseas listed foreign invested shares and the Company, between a holder of overseas listed foreign invested shares and a director, supervisor, manager or other senior management of the Company, and between a holder of overseas listed foreign invested shares and a holder of domestic shares, the parties concerned shall resolve such disputes and claims through arbitration.

Where a dispute or claim described above is submitted for arbitration, the entire dispute or claim shall be resolved through arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, managers or other senior management of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

(II) the party seeking arbitration may elect to have the dispute or claim arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or by the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral institution selected by the party seeking the arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at the Hong Kong International Arbitration Center, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the Hong Kong International Arbitration Center.

(III) if any disputes or claims falling within circumstances referred to in item (I) are settled by way of arbitration, the laws of the People's Republic of China shall apply, except as otherwise provided in the laws and administrative regulations.

(IV) the award of the arbitral institution is final and shall be binding on the parties thereto.

1. FURTHER INFORMATION ABOUT THE COMPANY

A. Incorporation

The two predecessors of the Company, Shenyin & Wanguo Securities and Hongyuan Securities were established in September 1996 and May 1993, respectively. In January 2015, with the approval of CSRC, Shenyin & Wanguo Securities merged Hongyuan Securities by absorption, and then Shenyin & Wanguo Securities was renamed to Shenwan Hongyuan Group. Our registered address is at Room 2001, 20/F, Dacheng International Building, 358 South Beijing Road, Urumqi High-tech Zone, Xinjiang, PRC.

We have been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 15, 2018 and our principal place of business in Hong Kong is at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. Ms. Fok Po Yi, is the authorized representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The address for service of process on the Company in Hong Kong is the same as its principal place of business in Hong Kong as set out above.

As the Company was established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and our Articles of Association is set out in Appendices IV and V to this document.

B. Changes in the Share Capital of the Company

Following the merger by absorption of Hongyuan Securities and after we were renamed to Shenwan Hongyuan Group, our registered capital was RMB14,856,744,977. The major changes to our registered capital are as follows:

- In July 2016, the Company declared a cash dividend of RMB1.50 and share dividend of 3.50 shares for every 10 A Shares to the its shareholders (the "**2015 Dividend Distribution Plan**"). Upon the completion of 2015 Dividend Distribution Plan, our registered capital was increased to RMB20,056,605,718.
- In January 2018, our Company issued 2,479,338,842 new A Shares which were listed on the Shenzhen Stock Exchange, thus our registered capital was increased to RMB22,535,944,560.

C. Resolutions Passed by Our Shareholders' General Meeting in Relation to the [REDACTED]

At the extraordinary general meeting of the Shareholders held on November 28, 2018, the following resolutions, among others, were duly passed:

(a) the issue by the Company of H Shares of nominal value of RMB1.00 each and such H Shares be **[REDACTED]** on the Hong Kong Stock Exchange;

(b) the number of H Shares to be issued shall be no more than **[REDACTED]** of the total issued share capital of our Company as enlarged by the **[REDACTED]**, and the grant to the **[REDACTED]** the **[REDACTED]** of not more than 15% of the number of H Shares issued pursuant to the **[REDACTED]**;

(c) authorization of the Board and its authorized persons to handle all matters relating to, among other things, the **[REDACTED]**, the issue and **[REDACTED]** of the H Shares; and

(d) subject to the completion of the **[REDACTED]**, the conditional adoption of the revised Articles of Association, which shall become effective on the **[REDACTED]**.

D. Further Information about Our Subsidiaries

A list of our principal subsidiaries is set out under the financial statements in the Accountants' Report as included in Appendix I. Save as disclosed below, there has been no alteration in the share capital of any of our principal subsidiaries within the two years immediately preceding the date of this document.

(a) On February 13, 2018, the registered capital of Shenwan Hongyuan Securities was increased from RMB 33,000,000,000 to RMB 43,000,000,000.

(b) On May 16, 2018, the registered capital of Shenwan Hongyuan Securities (Western) was increased from RMB 1,200,000,000 to RMB 4,700,000,000.

(c) On November 16, 2017, the registered capital of Shenyin & Wanguo Futures Co., Ltd. was increased from RMB 776,000,000.00 to RMB 1,119,370,000.14.

(d) On November 1, 2017, the registered capital of Hongyuan Futures was increased from RMB 550,000,000 to RMB 1,000,000,000.

(e) On February 13, 2018, the registered capital of Hongyuan Hengli (Shanghai) Industrial Co., Ltd. (宏源恒利（上海）實業有限公司) was increased from RMB 50,000,000 to RMB 200,000,000, and was increased from RMB 200,000,000 to RMB 400,000,000 on July 27, 2018. Its registered capital further increased to RMB500,000,000 on February 28, 2019.

(f) On June 20, 2018, the registered capital of Hongyuan Huizhi was increased from RMB 1,200,000,000 to RMB 2,000,000,000.

(g) On July 16, 2018, the registered capital of Hongyuan Huifu was increased from RMB 300,000,000 to RMB 500,000,000.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

[REDACTED]

[REDACTED]

[REDACTED]

B. Our Intellectual Property Rights

As of December 31, 2018, we have registered or have applied for the registration of the following intellectual property rights which were material to the Group's business.

Trademarks

As of December 31, 2018, we have registered the following trademarks which we considered to be material to our business:

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
1	SWS MU	ChiStructure	17997649	36	2016.11.14-2026.11.13
2	SWS MU	LofShare	17997555	36	2016.11.14-2026.11.13
3	SWS MU	LofShares	17997631	36	2016.11.14-2026.11.13
4	SWS MU	SWS MU FUND	9528462	36	2012.06.21-2022.06.20
5	SWS MU	SWS MU	9528463	36	2012.06.21-2022.06.20
6	SWS MU	WeShare	17997673	36	2017.02.14-2027.02.13
7	SWS MU	WeShares	17997691	36	2017.02.14-2027.02.13
8	SWS MU	申级	17997837	36	2016.08.21-2026.08.20
9	SWS MU	申级宝	17157837	36	2016.08.21-2026.08.20
10	SWS MU	申万菱信	16779074	36	2016.07.14-2026.07.13
11	SWS Research		16866135	36	2016.7.28-2026.7.27
12	SWS Research		7939094	36	2013.10.28-2023.10.27
13	The Company		18145439	36	2018.05.14-2028.05.13
14	The Company		1357469	36	2010.01.21-2020.01.20
15	The Company	宝 鼎	1364886	36	2000.02.14-2020.02.13
16	The Company		5285005	36	2009.10.21-2019.10.20
17	The Company	SHENYIN WANGUO	5285006	36	2009.09.28-2019.09.27
18	The Company	申银万国	5285007	36	2009.11.28-2019.11.27

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
19	The Company		7289700	16	2010.08.07-2020.08.06
20	The Company		7289701	16	2010.08.07-2020.08.06
21	The Company		7289702	9	2010.11.21-2020.11.20
22	The Company		7289703	9	2010.11.21-2020.11.20
23	The Company		7289706	16	2010.08.07-2020.08.06
24	The Company		7289707	16	2010.08.07-2020.08.06
25	The Company		7289708	9	2010.11.21-2020.11.20
26	The Company		7289709	9	2010.11.21-2020.11.20
27	The Company		7289712	35	2014.02.21-2024.02.20
28	The Company		7289713	35	2014.02.21-2024.02.20
29	The Company		7289714	16	2010.08.07-2020.08.06
30	The Company		7289715	16	2010.08.07-2020.08.06
31	The Company		7289716	9	2010.11.21-2020.11.20
32	The Company		7289717	9	2010.11.21-2020.11.20
33	The Company		7289718	35	2010.10.07-2020.10.06
34	The Company		7289719	35	2010.10.07-2020.10.06
35	The Company		7289720	16	2010.08.07-2020.08.06
36	The Company		7289721	16	2010.08.07-2020.08.06
37	The Company		7289752	16	2010.08.07-2020.08.06
38	The Company		7289753	16	2010.08.07-2020.08.06

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
39	The Company	SHENYIN & WANGUO SECURITIES	7289754	9	2010.11.21-2020.11.20
40	The Company	SHENYIN & WANGUO SECURITIES	7289755	9	2010.11.21-2020.11.20
41	The Company	申银万国证券	7289756	35	2010.10.07-2020.10.06
42	The Company	申银万国证券	7289757	35	2010.10.07-2020.10.06
43	The Company	申银万国证券	7289758	16	2010.08.07-2020.08.06
44	The Company	申银万国证券	7289759	16	2010.08.07-2020.08.06
45	The Company	申银万国证券	7289760	9	2010.11.21-2020.11.20
46	The Company	申银万国证券	7289761	9	2010.11.21-2020.11.20
47	The Company		7289762	9	2010.11.21-2020.11.20
48	The Company		7289763	9	2010.11.21-2020.11.20
49	The Company	SWS	7289764	35	2010.10.07-2020.10.06
50	The Company	SWS	7289765	35	2010.10.07-2020.10.06
51	The Company	SWS	7289766	16	2010.08.07-2020.08.06
52	The Company	SWS	7289767	16	2010.08.07-2020.08.06
53	The Company	SWS	7289768	9	2010.11.21-2020.11.20
54	The Company	SWS	7289769	9	2010.11.21-2020.11.20
55	The Company	SHENYIN & WANGUO SECURITIES	7289770	35	2010.10.07-2020.10.06
56	The Company	SHENYIN & WANGUO SECURITIES	7289771	35	2010.10.07-2020.10.06
57	The Company	申银万国 SHENYIN & WANGUO	7320433	36	2010.10.14-2020.10.13
58	The Company	SWS	7320434	36	2014.6.28-2024.6.27

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
59	The Company		7320435	36	2014.6.28-2024.6.27
60	The Company		7320436	36	2011.02.21-2021.02.20
61	The Company		7320437	36	2011.03.07-2021.03.06
62	The Company		7320438	36	2011.06.14-2021.06.13
63	The Company		7320519	36	2011.04.21-2021.04.20
64	The Company		7320520	36	2011.02.21-2021.02.20
65	The Company		7320521	36	2011.02.21-2021.02.20
66	The Company		7320522	36	2010.10.14-2020.10.13
67	The Company		7320523	36	2010.10.14-2020.10.13
68	The Company		7320524	36	2010.10.14-2020.10.13
69	The Company		7320525	36	2010.10.14-2020.10.13
70	The Company		7289705	35	2014.02.21-2024.02.20
71	The Company		7289704	35	2014.02.21-2024.02.20
72	The Company		1279871	36	2009.05.28-2019.05.27
73	The Company		7482926	42	2011.01.28-2021.01.27
74	The Company		7482927	38	2010.11.07-2020.11.06
75	The Company		7482928	36	2010.11.07-2020.11.06
76	The Company	宏源期货	8648920	36	2012.01.28-2022.01.27
77	The Company	宏源证券	8648921	36	2012.01.28-2022.01.27

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
78	The Company	宏源	8648928	36	2014.01.14-2024.01.13
79	The Company	宏源证券	11627793	36	2014.03.21-2024.03.20
80	The Company	宏源期货	11627815	36	2014.03.21-2024.03.20
81	The Company	申万宏源	18142028	9	2016.12.7-2026.12.06
82	The Company	申万宏源	18143025	16	2016.12.7-2026.12.06
83	The Company	申万宏源	18143908	35	2016.12.7-2026.12.06
84	The Company	申万宏源	18142206	9	2016.12.7-2026.12.06
85	The Company	申万宏源	18143051	16	2016.12.7-2026.12.06
86	The Company	申万宏源	18144068	35	2016.12.7-2026.12.06
87	The Company	申万	18143203	16	2016.12.7-2026.12.06
88	The Company	申 万	18143346	16	2016.12.7-2026.12.06
89	The Company	申万宏源 SHENWAN HONGYUAN	18143505	16	2016.12.7-2026.12.06
90	The Company	申万宏源 SWHY	18142678	9	2016.12.7-2026.12.06
91	The Company	申万宏源 SWHY	18143574	16	2016.12.7-2026.12.06
92	The Company	申万宏源 SWHY	18144550	35	2016.12.7-2026.12.06
93	The Company	SHENWAN HONGYUAN	18142776	9	2016.12.7-2026.12.06
94	The Company	SHENWAN HONGYUAN	18143627	16	2016.12.7-2026.12.06
95	The Company	SHENWAN HONGYUAN	18143746	35	2016.12.7-2026.12.06
96	The Company	SHENWAN HONGYUAN	18144913	36	2016.12.7-2026.12.06

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
97	The Company		18142967	16	2016.12.7-2026.12.06
98	The Company		18143857	35	2016.12.7-2026.12.06
99	The Company		18145124	36	2016.12.21-2026.12.22
100	The Company		18145049	36	2016.12.21-2026.12.22
101	The Company	申万	18142282	9	2017.2.14-2027.2.13
102	The Company	申 万	18142363	9	2017.2.14-2027.2.13
103	The Company	宏源	18143332	16	2017.2.14-2027.2.13
104	The Company	宏 源	18142471	9	2017.2.14-2027.2.13
105	The Company	宏 源	18143402	16	2017.2.14-2027.2.13
106	The Company	宏源	18142418	9	2017.01.28-2027.01.27
107	The Company	申万云	8670891	36	2011.10.28-2021.10.27
108	The Company	申万云	8670910	42	2011.9.28-2021.9.27
109	The Company		14840878	42	2015.10.7-2025.10.6
110	The Company		14840936	36	2015.10.7-2025.10.6
111	The Company		10952515	36	2011.10.28-2021.10.27
112	The Company		10952562	42	2011.9.28-2021.9.27
113	The Company	宏源	18145491	36	2017.6.21-2027.6.20

No.	Registered Owner	Trademark Name	Registration No.	Class	Period of Validity
114	The Company		18145551	36	2017.6.21-2027.6.20
115	The Company		18142565	9	2017.8.28-2027.8.7
116	The Company	申万宏源易金所	20740118	9	2017.9.14-2027.9.13
117	The Company	申万宏源大赢家	20740262	9	2017.9.14-2027.9.13
118	The Company	申万宏源精英汇	20740189	9	2017.9.14-2027.9.13
119	The Company		18144462	35	2017.10.07-2027.10.06
120	The Company	申万	18145366	36	2018.01.14-2028.01.13
121	Shenwan Hongyuan (H.K.)		303325446	9, 16, 35, 36	2015.3.11-2025.3.10
122	Shenwan Hongyuan (H.K.)		303325473	9, 16, 35, 36	2015.3.11-2025.3.10
123	Shenwan Hongyuan (H.K.)		303325482	9, 16, 35, 36	2015.3.11-2025.3.10
124	Shenwan Hongyuan (H.K.)		303325491	9, 16, 35, 36	2015.3.11-2025.3.10

Domain Names

As of the December 31, 2018, we have registered the following domain names:

No.	Registered Owner	Domain Name	Period of Validity
1	The Company	申萬宏源集團.公司	2019.9.28
2	The Company	申萬宏源集團.中國	2019.9.26
3	The Company	申萬宏源.中國	2019.9.5
4	The Company	申萬宏源.集團	2019.9.28
5	The Company	申萬宏源.公司	2019.9.28
6	The Company	申萬宏源.cn	2019.9.26

No.	Registered Owner	Domain Name	Period of Validity
7	The Company	swhygh.com	2019.11.3
8	The Company	swhygh.cn	2019.10.31
9	The Company	swhygh.com.cn	2019.10.31
10	The Company	申萬宏源集團.網址	2019.10.16
11	The Company	申萬宏源集團.com	2019.5.2
12	The Company	申萬宏源集團.cn	2019.5.2
13	Shenwan Hongyuan Securities	swhysc.com	2020.7.21
14	Shenwan Hongyuan Securities	sywg.com.cn	2019.8.10
15	Shenwan Hongyuan Securities	sywg.cn	2019.3.17
16	Shenwan Hongyuan Securities	sywg.net	2019.11.21
17	Shenwan Hongyuan Securities	sywg.biz	2019.11.21
18	Shenwan Hongyuan Securities	sywg.com	2019.8.30
19	Shenwan Hongyuan Securities	sw2000.com.cn	2019.4.30
20	Shenwan Hongyuan Securities	hysec.com	2025.3.04
21	Shenwan Hongyuan Securities	hysec.net	2025.3.04
22	Shenwan Hongyuan Securities	ourhy.net	2025.3.04
23	Shenwan Hongyuan Securities	4008000562.com	2021.2.23
24	Shenwan Hongyuan Securities	4008000562.cn	2021.2.23
25	Shenwan Hongyuan Securities	4008000562.com.cn	2021.2.23
26	SWS MU	swsmuam.com.cn	2020.3.10
27	SWS MU	swsmuam.com	2020.3.10
28	SWS MU	申萬菱信基金.com	2019.7.16
29	SWS MU	申萬菱信.com	2019.7.16
30	SWS MU	swsmu.com	2019.7.16
31	SWS MU	申萬菱信基金.中國	2019.7.16
32	SWS MU	申萬菱信基金.cn	2019.7.16
33	SWS MU	申萬菱信.中國	2019.7.16
34	SWS MU	申萬菱信.cn	2019.7.16
35	SWS MU	swsmu.com.cn	2019.7.16
36	SWS MU	swsmu.cn	2019.7.16
37	SWS Research	swsresearch.net	2026.2.25
38	SWS Research	swsresearch.com	2026.2.25
39	SWS Research	swsresearch.cn	2026.2.25
40	SWS Research	申萬研究.net	2026.2.25
41	SWS Research	申萬研究.com	2026.2.25
42	SWS Research	swsresearch.mobi	2025.7.3

No.	Registered Owner	Domain Name	Period of Validity
43	SWS Research	swsresearch.org	2025.7.3
44	SWS Research	申銀萬國證券研究.com	2025.7.3
45	SWS Research	申銀萬國研究.com	2025.7.3
46	SWS Research	證券研究.com	2025.7.3
47	SWS Research	swsresearch.hk	2025.7.3
48	SWS Research	swsresearch.tw	2021.7.3
49	SWS Research	swsresearch.com.cn	2026.2.25
50	SWS Research	sw108.com.cn	2025.6.30
51	SWS Research	swsresearch.net.cn	2025.7.3
52	SWS Research	swsresearch.org.cn	2025.7.3
53	SWS Research	申銀萬國證券諮詢網.com	2026.1.5
54	SWS Research	申銀萬國證券研究所.com	2026.1.5
55	SWS Research	sw108.cn	2025.3.17
56	SWS Research	sw108.com	2025.5.17
57	SWS Research	swsindex.com	2025.7.1
58	SWS Research	swsindex.net	2025.7.1
59	SWS Research	申萬指數.net	2025.7.1
60	SWS Research	申萬指數.com	2025.7.1
61	SWS Research	swsindex.com.cn	2025.7.11
62	SWS Research	swsindex.cn	2025.7.11
63	SWS Research	swsx.com.cn	2025.7.11
64	SWS Research	申萬研究.cn	2026.2.26
65	SWS Research	申銀萬國證券研究所.cn	2026.2.26
66	SWS Research	申銀萬國證券諮詢網.cn	2026.2.27
67	SWS Research	證券研究.cn	2025.7.6
68	SWS Research	申銀萬國研究.cn	2025.7.6
69	SWS Research	申銀萬國證券研究.cn	2025.7.6
70	SWS Research	申萬指數.cn	2025.8.2
71	SWS Research	swhy108.cn	2026.2.4
72	SWS Research	Shenwan Hongyuan Securities研究所.cn	2026.2.4
73	SWS Research	Shenwan Hongyuan Securities研究.com	2026.2.4
74	SWS Research	swhy108.com	2026.2.4
75	SWS Research	Shenwan Hongyuan Securities諮詢網.cn	2026.2.4
76	SWS Research	申萬宏源諮詢網.com	2026.2.4
77	SWS Research	申萬宏源研究所.com	2026.2.4
78	SWS Research	Shenwan Hongyuan Securities研究.cn	2026.2.4

No.	Registered Owner	Domain Name	Period of Validity
79	SWS Research	申萬宏源研究.cn	2026.2.4
80	SWS Research	申萬宏源指數.net	2026.2.4
81	SWS Research	申萬宏源研究.net	2026.2.4
82	SWS Research	申萬宏源指數.com	2026.2.4
83	SWS Research	申萬宏源研究.com	2026.2.4
84	SWS Research	swhyresearch.net.cn	2026.2.9
85	SWS Research	swhyresearch.mobi	2026.2.9
86	SWS Research	swhyresearch.org.cn	2026.2.9
87	SWS Research	swhyresearch.org	2026.2.9
88	SWS Research	swhy108.com.cn	2026.2.9
89	SWS Research	申萬宏源指數.cn	2026.2.9
90	SWS Research	swhyresearch.cn	2026.2.9
91	SWS Research	swhyresearch.net	2026.2.9
92	SWS Research	swhyresearch.com.cn	2026.2.9
93	SWS Research	swhyindex.cn	2026.2.9
94	SWS Research	swhyindex.net	2026.2.9
95	SWS Research	swhyx.com.cn	2026.2.9
96	SWS Research	swhyindex.com	2026.2.9
97	SWS Research	swhyindex.com.cn	2026.2.9
98	SWS Research	swhyresearch.hk	2025.11.11
99	SWS Research	swhyresearch.com	2025.12.21
100	Hongyuan Futures	hongyuanqh.cn	2022.12.24
101	Hongyuan Futures	hongyuanqh.com.cn	2022.12.24
102	Hongyuan Futures	hongyuanqh.com	2022.12.24
103	Hongyuan Futures	sywgqh.com.cn	2019.06.18
104	Shenyin Wanguo Online Broker (H.K.) Limited	swob.com.hk	2019.08.21
105	Shenwan Hongyuan (H.K.)	swhyhk.com.hk	2022.03.03
106	Shenwan Hongyuan (H.K.)	swhy.hk	2022.03.03
107	Shenwan Hongyuan (H.K.)	swhysc.com.hk	2022.03.02
108	Shenwan Hongyuan (H.K.)	swhygh.com.hk	2022.03.02
109	Shenwan Hongyuan (H.K.)	swshk.com.hk	2022.04.16
110	Shenwan Hongyuan (H.K.)	swshk.hk	2022.04.16
111	Shenwan Hongyuan (H.K.)	shshk.hk	2022.04.16
112	Shenwan Hongyuan (H.K.)	shshk.com.hk	2022.04.16
113	Shenwan Hongyuan (H.K.)	sywg.com.hk	2020.07.10

No.	Registered Owner	Domain Name	Period of Validity
114	Shenwan Hongyuan (H.K.)	swhy.com.hk	2020.01.04
115	Shenwan Hongyuan Research (H.K.) Limited	swsresearch.com.hk	2019.09.08
116	Shenwan Hongyuan Online Limited	sywg-online.com	2022.05.03
117	Shenwan Hongyuan Online Limited	swsecurities.com	2022.05.18
118	Shenwan Hongyuan Online Limited	swhyhk.com	2022.03.03
119	Shenwan Hongyuan Online Limited	swshk.com	2022.04.16
120	Shenwan Hongyuan Online Limited	swhyhk-online.com	2022.04.20
121	Shenwan Hongyuan Online Limited	swhysg.com	2019.08.09

Software copyrights

As of the December 31, 2018, we have registered the following software copyrights which we considered to be material to our business:

No.	Registered No.	Software Name	Copyright Owner	Scope of Copyright	Date of Initial Publication
1	2012SR080369	SW Research's Mobile Office Platform Software V1.0 (申萬研究手機移動辦公平台軟件V1.0)	SWS Research	All	2011.11.15
2	2012SR080398	Shenwan's Cloud Search Platform Software V2.0 (申萬雲搜索平臺軟件V2.0)	SWS Research	All	2012.06.11
3	2012SR080375	Shenwan's Cloud Intelligent Chatbot Software V1.0 (申萬雲智能聊天機器人軟件V1.0)	SWS Research	All	2012.05.01
4	2012SR080394	Shenyin Wanguo's CRM (Customer Relationship Management) Software V3.0 (申銀萬國CRM（客戶關係管理）軟件V3.0)	SWS Research	All	2012.04.26
5	2012SR080389	Shenyin Wanguo's Report Template Software V4.0 (申銀萬國報告模板軟件V4.0)	SWS Research	All	2012.06.12
6	2012SR080364	Shenyin Wanguo's Financial Forecasting and Valuation Model Software V3.1 (申銀萬國財務預測與估值模型軟件V3.1)	SWS Research	All	2012.06.15
7	2012SR080366	Shenyin Wanguo's Morning Meeting Minutes Management Software V2.0 (申銀萬國晨會紀要管理軟件V2.0)	SWS Research	All	2012.06.12
8	2012SR080360	Shenyin Wanguo's Quantitative Analysis Platform Software V1.0 (申銀萬國量化分析平臺軟件V1.0)	SWS Research	All	2012.06.12
9	2012SR080270	Shenyin Wanguo's Data Presentation Tool Software V2.0 (申銀萬國數據展現工具軟件V2.0)	SWS Research	All	2012.06.05
10	2012SR080265	Shenyin Wanguo's External Website Data Capture Software V2.0 (申銀萬國外部網站數據抓取軟件V2.0)	SWS Research	All	2012.05.15

No.	Registered No.	Software Name	Copyright Owner	Scope of Copyright	Date of Initial Publication
11	2012SR080261	Shenyin Wanguo's Free Float Management Software V1.0 (申銀萬國自由流通量管理軟件V1.0)	SWS Research	All	2012.06.12
12	2011SR044772	Shenyin Wanguo's Position Estimation Model Software V1.0 (申銀萬國倉位估算模型軟件V1.0)	SWS Research	All	2011.03.01
13	2011SR040320	Shenyin Wanguo's Wiki Platform Software V1.0 (申銀萬國Wiki平臺軟件V1.0)	SWS Research	All	2011.05.13
14	2011SR040316	Shenyin Wanguo's Overseas Valuation Model Software V1.0 (申銀萬國海外估值模型軟件V1.0)	SWS Research	All	2011.03.15
15	2011SR040321	Shenyin Wanguo's Data Publishing Platform Software V2.0 (申銀萬國數據發佈平臺軟件V2.0)	SWS Research	All	2011.03.15
16	2011SR040323	Shenyin Wanguo's Data Presentation Tool Software V1.0 (申銀萬國數據展現工具軟件V1.0)	SWS Research	All	2011.03.15
17	2011SR040318	Shenyin Wanguo's Index Real-time Calculation Software V2.0 (申銀萬國指數實時計算軟件V2.0)	SWS Research	All	2011.05.01
18	2011SR040315	Shenyin Wanguo's Stock Index Platform Software V1.0 (申銀萬國股價指數平臺軟件V1.0)	SWS Research	All	2011.05.21
19	2010SR063761	Shenyin Wanguo's Morning Meeting Minutes Management Software V1.0 (申銀萬國晨會紀要管理軟件V1.0)	SWS Research	All	2010.10.01
20	2010SR063762	Shenyin Wanguo's Key Hypothesis Table Management Software V1.0 (申銀萬國關鍵假設表管理軟件V1.0)	SWS Research	All	2010.07.11
21	2010SR061134	Shenyin Wanguo's Convertible Bond Analysis Software V1.0 (申銀萬國可轉換債券分析軟件V1.0)	SWS Research	All	2010.01.15
22	2010SR061135	Shenyin Wanguo's Warrant Analysis Software V1.0 (申銀萬國權證分析軟件V1.0)	SWS Research	All	2010.01.18
23	2010SR063760	Shenwan's Cloud Search Platform Software V1.0 (申萬雲搜索平臺軟件V1.0)	SWS Research	All	2010.06.01
24	2010SR063759	Shenyin Wanguo's External Website Data Capture Software V1.0 (申銀萬國外部網站數據抓取軟件V1.0)	SWS Research	All	2010.06.01
25	2009SR059579	Shenyin Wanguo's Securities Consulting Platform Software V3.0 (申銀萬國證券諮詢平臺軟件V3.0)	SWS Research	All	2009.07.01
26	2009SR059582	Shenyin Wanguo's Research Platform Sharing Software V1.0 (申銀萬國研究平臺共享軟件V1.0)	SWS Research	All	2009.07.01

No.	Registered No.	Software Name	Copyright Owner	Scope of Copyright	Date of Initial Publication
27	2009SR059578	Shenyin Wanguo's Index Real-time Calculation Software V1.0 (申銀萬國指數實時計算軟件V1.0)	SWS Research	All	2009.06.30
28	2008SR32330	SWS Research's Overseas Profit Forecasting Software V2.1 (申銀萬國證券研究所海外盈利預測軟件V2.1)	SWS Research	All	2007.12.28
29	2008SR32335	Shenyin Wanguo's Financial Forecasting and Valuation Model Software V2.1 (申銀萬國財務預測與估值模型軟件V2.1)	SWS Research	All	2008.08.01
30	2008SR32334	SWS Research's Broker Centralized Customer Management Software V1.2 (申銀萬國證券研究所經紀人集中客戶管理軟件V1.2)	SWS Research	All	2007.11.16
31	2008SR32333	Shenyin Wanguo's CRM (Customer Relationship Management) Software V1.0 (申銀萬國CRM（客戶關係管理）軟件V1.0	SWS Research	All	2007.12.31
32	2008SR32332	SWS Research's Derivative Arbitrage Hedging Software V1.0 (申銀萬國證券研究所衍生品套利套保軟件V1.0)	SWS Research	All	2007.05.10
33	2008SR32331	SWS Research's Research Report Template Software V3.0 (申銀萬國證券研究所研究報告模板軟件V3.0)	SWS Research	All	2007.09.01
34	2005SR10330	Shenyin Wanguo's Securities Consulting Platform Software V2.0 (申銀萬國證券諮詢平臺軟件V2.0)	SWS Research	All	2005.04.28
35	2005SR10329	Shenyin Wanguo's Portfolio Management Software V1.0 (申銀萬國投資組合管理軟件V1.0)	SWS Research	All	2005.03.31
36	2003SR10165	SWS Research's Information Browser Software V1.0 (申銀萬國證券研究所資訊瀏覽器軟件V1.0)	SWS Research	All	2003.04.28
37	2003SR9705	Shenyin Wanguo's Securities Investment Fund Performance Evaluation Software V1.0 (申銀萬國證券投資基金績效評價軟件V1.0)	SWS Research	All	2003.05.19
38	2003SR9704	Shenyin Wanguo's Business Platform Software V1.0 (申銀萬國研究業務平臺軟件V1.0)	SWS Research	All	2003.07.01
39	2003SR9703	Shenyin Wanguo's Data Publishing Platform Software V1.0 (申銀萬國數據發佈平臺軟件V1.0)	SWS Research	All	2003.04.28
40	2003SR9700	Shenyin Wanguo's Data Warehouse Software V1.0 (申銀萬國數據倉庫軟件V1.0)	SWS Research	All	2002.11.30
41	2003SR7389	Shenyin Wanguo's Securities Consulting Platform Software V1.0 (申銀萬國證券諮詢平臺軟件V1.0)	SWS Research	All	2003.04.28
42	2003SR4895	Shenyin Wanguo's Bond Analysis System V1.0 (申銀萬國債券分析系統V1.0)	SWS Research	All	2002.11.30
43	2003SR4894	Brokerage Department CRM System V1.0 (經紀通營業部CRM系統V1.0)	SWS Research	All	2002.11.30

No.	Registered No.	Software Name	Copyright Owner	Scope of Copyright	Date of Initial Publication
44	2013SR121139	Shenwan's Cloud Intelligent Chatbot Software V1.5 (申萬雲智能聊天機器人軟件V1.5)	SWS Research	All	2013.05.24
45	2013SR121519	Shenyin Wanguo's CRM (Customer Relationship Management) Software V4.0 (申銀萬國CRM（客戶關係管理）軟件 V4.0)	SWS Research	All	2013.05.24
46	2013SR121146	SW Research's Report Audit Process Management Software V1.0 (申萬研究報告審核流程管理軟件V1.0)	SWS Research	All	2013.06.01
47	2013SR122030	Shenyin Wanguo's SMS Sending Platform Software V1.0 (申銀萬國短信發送平臺軟件V1.0)	SWS Research	All	2013.03.15
48	2013SR121524	Shenyin Wanguo's Stock Index Platform Software V2.0 (申銀萬國股價指數平臺軟件V2.0)	SWS Research	All	2013.05.25
49	2013SR120705	Shenyin Wanguo's Overseas Report Template Software V1.0 (申銀萬國海外報告模板軟件V1.0)	SWS Research	All	2013.05.25
50	2013SR122004	Shenyin Wanguo's Overseas Financial Forecasting and Valuation Model Software V1.0 (申銀萬國海外財務預測與估值模型軟件V1.0)	SWS Research	All	2013.06.01
51	2013SR120912	Shenyin Wanguo's Overseas Profit Forecasting Software V3.0 (申銀萬國海外盈利預測軟件V3.0)	SWS Research	All	2013.05.25
52	2013SR122149	SW Research's Mobile Office Platform Software V1.5 (申萬研究手機移動辦公平臺軟件V1.5)	SWS Research	All	2013.05.25
53	2013SR122008	Shenyin Wanguo's Dual Data Source Auditing Software V2.0 (申銀萬國雙數據源審核軟件V2.0)	SWS Research	All	2013.05.25
54	2013SR074938	SWS Research's Cloud Service Platform Software V1.0 (申銀萬國證券研究雲服務平臺軟件V1.0)	SWS Research	All	2013.03.01
55	2014SR110335	Shenwan's Cloud·Gathering WeChat Platform Software V1.0 (申萬雲●聚微信平臺軟件V1.0)	SWS Research	All	2014.04.18
56	2014SR135658	Shenyin Wanguo's Credit Debt Analysis And Evaluation Software V1.0 (申銀萬國信用債分析評價軟件V1.0)	SWS Research	All	2014.06.01
57	2014SR135661	Shenyin Wanguo's Data Presentation Tool Software V2.5 (申銀萬國數據展現工具軟件V2.5)	SWS Research	All	2014.07.01
58	2015SR001857	Shenyin Wanguo's Research Management Platform Software V1.0 (申銀萬國研究管理平臺軟件V1.0)	SWS Research	All	2014.08.28

No.	Registered No.	Software Name	Copyright Owner	Scope of Copyright	Date of Initial Publication
59	2015SR182501	Shenwan's Cloud Financial Information Analysis and Consulting Service Platform Software [Abbr. Shenwan's Cloud Service Platform] V1.0 (申萬雲金融信息分析與諮詢服務平臺軟件[簡稱：申萬雲服務平臺]V1.0)	SWS Research	All	2015.06.01
60	2016SR267202	Shenwan Hongyuan's Universal Conference Platform Software [Abbr. Shenwan's Conference Platform] V1.0 (申萬宏源通用會議平臺軟件[簡稱：申萬會議平臺]V1.0)	SWS Research	All	2016.07.01
61	2016SR266575	Shenwan Hongyuan's US Stock Earnings Forecasting Software [Abbr. US Stock Earnings Forecasting Software] V1.0 (申萬宏源美股盈利預測軟件[簡稱：美股盈利預測軟件]V1.0)	SWS Research	All	2016.03.01
62	2016SR266577	Shenwan Hongyuan's Model Profile Software [Abbr. Model Profile] V1.0 (申萬宏源模型簡表軟件[簡稱：模型簡表]V1.0)	SWS Research	All	2016.03.01
63	2016SR266874	SWS Research's Mobile Office Platform Software [Abbr. Mobile Office] V2.0 (申萬宏源研究手機移動辦公平臺軟件[簡稱：手機移動辦公]V2.0)	SWS Research	All	2016.03.01
64	2018SR880808	Shenyin Wanguo Futures' Stock Option Strategy Execution Platform Software [Abbr. SOSEP] V1.0 (申萬期貨股票期權策略執行平臺軟件[簡稱：SOSEP]V1.0)	Shenwan Futures	All	Unpublished
65	2018SR880815	Shenyin Wanguo Futures' Quantitative Abutting Platform Software [Abbr. QAP] V1.0 (申萬期貨量化對接平臺軟件[簡稱：QAP]V1.0)	Shenwan Futures	All	Unpublished
66	2017SR329790	Shenyin Wanguo Futures' OTC Options Trading Supporting Platform Software [Abbr. OTC Supporting Platform] V1.0 (申萬期貨場外期權交易支持平臺軟件[簡稱：OTC支持系統]V1.0)	Shenwan Futures	All	Unpublished
67	2017SR329956	Shenyin Wanguo Futures' High-precision Quantitative Backtest Platform Software V1.0 (申萬期貨高精度量化回測平臺軟件V1.0)	Shenwan Futures	All	Unpublished
68	2017SR329780	Shenyin Wanguo Futures'Embedded Quantitative Trading Platform Software [Abbr. EAST] V1.0 (申萬期貨內嵌式量化交易平臺軟件[簡稱：EAST]V1.0)	Shenwan Futures	All	Unpublished
69	2016SR282227	Shenyin Wanguo's K Line Chart Association Mining Software Between Financial Public Opinion and Stock Index V5.0 (申銀萬國金融輿情與股票指數K線圖關聯挖掘軟件V5.0)	Shenwan Futures	All	2016.08.01
70	2015SR071724	Securities Company's Employee Performance Appraisal System [Abbr. Performance Appraisal System] V1.0 (證券公司員工績效考核系統[簡稱：績效考核系統]V1.0)	Shenwan Hongyuan Securities	All	2015.03.01

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors' and Supervisors' Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we will enter into a contract with each of our Directors and Supervisors in respect of, among other things (i) compliance of relevant laws and regulations, (ii) observance of the Articles of Association, and (iii) provisions on arbitration.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to enter into a service contract with any member of the Group, other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

B. Remuneration of Directors and Supervisors

For the years ended December 31, 2016, 2017 and 2018, the total remuneration paid to our Directors amounted to approximately RMB10.6 million, RMB10.9 million and RMB7.8 million, respectively.

For the years ended December 31, 2016, 2017 and 2018, the total remuneration paid to our Supervisors amounted to approximately RMB12.2 million, RMB11.9 million and RMB9.7 million, respectively.

Under the arrangement currently in force, we estimate the total fixed remuneration (excluding bonus) payable to Directors and Supervisors for the year ending December 31, 2019 will be approximately RMB5.9 million and RMB6.3 million, respectively.

During the Track Record Period, no fees were paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join us or as compensation for loss of office. None of the Directors or Supervisors waived any remuneration during the relevant period.

4. DISCLOSURE OF INTERESTS

A. Disclosure of Interests of Directors and Supervisors

Immediately following the completion of the **[REDACTED]** assuming that the **[REDACTED]** is not exercised, none of our Directors or Supervisors has any interest and/or short position in the Shares, underlying Shares and debentures of the Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules to be notified to the Company, once the H Shares are **[REDACTED]** on the Hong Kong Stock Exchange.

Up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

B. Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the **[REDACTED]**, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of the Company, see "Substantial Shareholders."

To the best knowledge of our Directors, the following persons (other than our Directors, Supervisors and the chief executives) will, immediately following the completion of the **[REDACTED]**, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any other members of the Company:

Interests of substantial shareholders in our member companies (excluding the Company)

Member of the Group	Name of substantial shareholders (other than us) and their shareholdings	
Ningxia Shenhong Modern Agricultural Industry Fund Management Co., Ltd. (寧夏申宏現代農業產業基金管理有限公司)	Shenzhen Lianzhong Chuangye Investment Co., Ltd.	49%
Sichuan Shenwan Hongyuan Changhong Equity Investment Management Co., Ltd. (四川申萬宏源長虹股權投資管理有限公司)	Sichuan Changhong Electric Co., Ltd.	40%
Shenwan Hongyuan Development Chengdu Equity Investment Management Co., Ltd. (申萬宏源發展成都股權投資管理有限公司)	Sichuan Sanxin Investment Co., Ltd.	49%
Hongyuan Recycling Energy Investment Management (Beijing) Co., Ltd. (宏源循環能源投資管理（北京）有限公司)	Xi'an Tiankehua Energy Technology Co., Ltd.	40%
Beijing Hongtong Investment Management Co., Ltd.(北京宏通投資管理有限公司)	Shijiazhuang Tonhe Electronics Technologies Co., Ltd.	49%
Hunan Xianghui Private Equity Fund Management Co., Ltd. (湖南湘匯私募股權基金管理有限公司)	Hunan Xiangliang Logistics Industry Co., Ltd.	49%
Hunan Development Shenhong Private Equity Fund Management Co., Ltd.(湖南發展申宏私募股權基金管理有限公司)	Hunan Development Group Capital Management Co., Ltd. (湖南發展集團資本經營有限公司)	49%
SWS Research Co., Ltd.	Wonders Information Co., Ltd.	10%
SWS MU Fund Management Co., Ltd.	Mitsubishi UFJ Trust and Banking Corporation	33%
Tongxiang Shenyin Wanguo Golden Phoenix Investment Management Co., Ltd. (桐鄉市申銀萬國金鳳凰投資管理有限公司)	Tongxiang Golden Phoenix Service Development Group Co., Ltd.	20%
Shenwan Jiaotou Investment Management Co. Ltd (申銀萬國交投產融（上海）投資管理有限公司)	STIG Industrial Finance Holding Limited	49%

C. Disclaimers

Save as disclosed in this document:

(a) none of our Directors or Supervisors has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;

(c) without taking into account any Shares which may be taken up under the **[REDACTED]**, none of our Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the **[REDACTED]**, have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and

(d) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Hong Kong Listing Rules) or Shareholders of the Company who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

5. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on the Company or its subsidiaries.

B. Litigation

As of the Latest Practicable Date, save as disclosed in "Business—Laws and Regulations," no member of the Group was engaged in any outstanding material litigation or arbitration which may have material and adverse effect on the **[REDACTED]** and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of the Group.

C. Joint Sponsors

Shenwan Hongyuan Capital (H.K.) Limited is a subsidiary of the Company and as such it is not independent of the Company. Each of Goldman Sachs (Asia) L.L.C., ICBC International Capital Limited and ABCI Capital Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The Joint Sponsors have made an **[REDACTED]** on our behalf to the Listing Committee for the **[REDACTED]** of, and permission to deal in, H Shares to be **[REDACTED]** as set out in this document and any H Shares which may be **[REDACTED]** pursuant to the exercise of **[REDACTED]**, on the Main Board of the Hong Kong Stock Exchange.

Pursuant to the engagement letter entered into between the Company and each of the Joint Sponsors, we have agreed to pay each of the Joint Sponsors a fee of **[REDACTED]** to act as the sponsors of the Company in connection with the proposed **[REDACTED]** on the Hong Kong Stock Exchange.

D. Joint Compliance Advisors

The Company has appointed Shenwan Hongyuan Capital (H.K.) Limited and ABCI Capital Limited as the joint compliance advisors upon the **[REDACTED]** in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

E. Preliminary Expenses

We have not incurred any preliminary expenses.

F. Promoters

The promoters of the Company are:

No.	Names of the units
1	Industrial and Commercial Bank of China
2	Shanghai Bureau of Finance
3	Shanghai International Trust & Investment Co., Ltd
4	People's Insurance Company of China, Shanghai branch (中國人民保險公司上海市分公司)
5	Shanghai1Real Estate Development Company of China (中國上海房地產開發公司)
6	China Venturetech Investment Corp (中國新技術創業投資公司)
7	China Everbright International Trust and Investment Company
8	Huaneng Power Generation Co., Ltd. (華能發電公司)
9	Sinopec Shanghai Jinshan Industrial Company (中國石化上海金山實業公司)
10	Lujiazui Finance and Trade Zone Development Co., Ltd. (上海市陸家嘴金融貿易區開發公司)
11	Shanghai Jiu Shi Company
12	Shanghai Industrial Company
13	Shanghai Pudong Development Bank
14	Shanghai Pharmaceuticals and Supplements Import and Export Company (上海市醫藥保健品進出口公司)
15	Zhuhai Shenguang Electron Co., Ltd. (珠海申光電子股份公司)
16	Shanghai Tire Rubber Group Limited (上海輪胎橡膠集團公司)
17	China Textile Machinery Company Limited (中國紡織機械股份有限公司)
18	Shanghai Long-Distance Telecommunications Bureau (上海長途電信局)
19	Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠股份有限公司)
20	Shanghai1 Automobile Industry Corp. (上海汽車工業總公司)
21	Shanghai Medicine Company (上海市醫業公司)
22	Yangtze River Economic United Development Co., Ltd. (長江經濟聯合發展股份有限公司)
23	Shanghai Knitting Company (上海針織公司)
24	Shanghai Shenxin Economic Development Corporation (上海申鑫經濟發展總公司)
25	Shenergy Electric Power Development Company
26	Guangdong Development Bank (Chaozhou Branch)
27	Shanghai Light Industry Marketing Cooperation (上海輕工供銷公司)
28	China National Technical Import & Export Corporation (中國技術進出口公司)
29	China Shenma Tire Fabrics (Group) Company (中國神馬簾子布（集團）公司)
30	Shanghai New Asia (Group) Company Limited
31	Shanghai D&F Commercial Society (上海內外聯綜合商社)
32	Shanghai Yongsheng Pen Manufacture Corporation (上海永生制筆股份有限公司)
33	China Enterprise Company (中華企業公司)
34	Shanghai Foreign Economy and Trade Enterprises Company (上海對外經濟貿易實業公司)
35	Hero Corporation (英雄股份有限公司)

No.	Names of the units
36	Pacific Chemical (Group) Company (太平洋化工（集團）公司)
37	Shanghai Erfangji Co., Ltd. (上海二紡機股份有限公司)
38	China Pushi Electronic Corporation (中國浦實電子有限公司)
39	Shanghai Jiafeng Corporation (上海嘉豐股份有限公司)
40	China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司)
41	CCB Ningbo Branch Trust Investment Corporation (建行寧波市分行信託投資總公司)
42	Shanghai No. 3 Steel Factory (上海第三鋼鐵廠)
43	Shanghai Urban Construction Investment Development Corporation (上海市城市建設投資開發總公司)
44	Xuhui District Urban Construction Development Corporation (徐匯區城市建設開發總公司)
45	China Artex Shanghai Import & Export Corporation
46	Shanghai Artwork Exhibition Company (上海市工藝品展銷公司)
47	CATIC Shanghai Company (中航技上海公司)
48	Shanghai Road Construction Corporation (上海市公路建設總公司)
49	Inner Mongolia Telecommunication Bureau (內蒙古電管局)
50	China Mechanical and Electrical Equipment Corporation (中國機電設備總公司)
51	Shanghai Gaoqiao Petrochemical Company (上海高橋石化公司)
52	China Pudong Development Mechanical and Industrial Corporation (中國浦發機械工業總公司)
53	Shanghai Wai Gaoqiao Free Trade Zone Development Co. Ltd. (上海外高橋保稅區開發股份有限公司)
54	Shanghai Zhongxing Group (上海中星集團)
55	Jiangnan Shipyard (江南造船廠)
56	Shanghai No. 1 Department Store Co., Ltd.
57	Shanghai Jinjiang Group Finance Company (上海市錦江集團財務公司)
58	Shanghai Dazhong Taxi Corporation (上海大眾計程車股份有限公司)
59	Shanghai Electric Co., Ltd. (上海電器股份有限公司)
60	Shanghai Yuyuan Tourist Mart Co., Ltd.
61	Shanghai Boshan Steel (上海寶山鋼鐵集團公司)
62	Shanghai Aijian Corporation (上海愛建股份有限公司)
63	Shanghai Electric Machinery (上海電機廠)
64	China National Agricultural Means of Production Corporation (Shanghai Branch) (中國農業生產資料公司上海分公司)
65	Tongling Institute of Non-ferrous Metals (銅陵有色金屬公司)
66	China Greatwall Finance Company (中國長城財務公司)
67	Beijing International Trust and Investment Company
68	Shanghai Bank Notes Printing Company Limited
69	Shanghai Offshore Petroleum Corporation Donghai Pudong Industrial Company (上海海洋石油公司東海浦東實業公司)
70	Capita Adjustment Center of General Support Base (總後勤部資金調劑中心)
71	Shanghai Chemical Industry Corporation (上海化工實業總公司)
72	Shanghai Pudong Huaxia Industry Corporation (上海浦東華夏實業總公司)
73	Shanghai Gas Pipeline No.2 Engineering Company (上煤第二管線工程公司)
74	Zhenhai Refining & Chemical Company (鎮海煉油化工股份有限公司)
75	China National Publications Import & Export Corporation (中國圖書進出口公司)
76	China Texmatech Co.,Ltd. (中國紡織機械技術進出口公司)
77	China Economic Development Trust & Investment Corporation (中國經濟開發信託投資公司)
78	PICC Hebei Provincial Branch (中國人民保險公司河北省分公司)
79	China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司)
80	PICC Xi'an Branch (中國人民保險公司西安市分公司)
81	Yunnan Securities Company (雲南省證券公司)
82	Huating Group Company (華亭集團公司)
83	Shanghai Industrial Investment Company (上海工業投資公司)
84	Shanghai Yanzhong Industrial Co., Ltd. 上海延中實業股份有限公司
85	Shanghai Railway Bureau (上海鐵路局)
86	Shanghai Minhang United Development Company Limited (上海閔行聯合發展有限公司)
87	Shanghai Tobacco Group Co., Ltd (上海煙草集團公司)

No.	Names of the units
88	Shanghai Golden Coast Trading and Investment Company (上海金海岸貿易投資公司)
89	Shenzhen Nanyang Trading Company (深圳南洋貿易公司)
90	Shanghai Phoenix Co., Ltd.（上海鳳凰股份有限公司）
91	China Merchant Bank Shanghai Branch (招商銀行上海分行)
92	Shanghai Jinxia Real Estate Enterprise Company (上海金廈房地產實業總公司)
93	Institute of Shanghai Architectural Design and Research (上海建築設計研究院)
94	Shanghai Grain & Oil Import & Export Company (上海糧油進出口公司)
95	Central Hospital of Zhabei District, Shnaghai (上海閘北區醫藥公司)
96	Maanshan Iron & Steel Company (馬鞍山鋼鐵公司)
97	Shanghai Trust & Investment Corporation of Agricultural Bank of China (農業銀行上海信託投資公司)
98	Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司)
99	Shanghai Electric Company (上海電氣聯合公司)
100	Shanghai No. 5 Steel Co., Ltd. (上海第五鋼鐵廠)
101	Shanghai Special Shaped Steel Tube Co., Ltd. (上海異型鋼管股份有限公司)
102	Shanghai Baosteel Group Enterprise Development Corporation (上海寶鋼總廠企業開發總公司)
103	Shanghai Yingda Electronic Equipment Factory (上海英達電子儀器廠)
104	Shanghai Shidongkou Power Enterprises Company (上海石洞口電力實業公司)
105	Shanghai Ai'shi Electronic Equipment Co., Ltd. (上海愛使電子設備股份有限公司)
106	Hudong Shipyard (滬東造船廠)
107	Shanghai Dajiang Group Stock Co. Ltd. (上海大江集團股份有限公司)
108	Shanghai Fashion Co., Ltd. (上海時裝股份有限公司)
109	Shanghai Feilo Acoustic Co., Ltd. (上海飛樂音響股份有限公司)
110	Shanghai Electric Power Construction Bureau (上海電力建設局)
111	Shanghai Dragon Corporation (上海龍頭股份有限公司)
112	Shanghai United Textile Holding Co., Ltd. (上海聯合紡織實業股份有限公司)
113	Guojia Optronics Limited (國嘉光電有限公司)
114	Shanghai Light Industry Machinery Co., Ltd. (上海輕工機械股份有限公司)
115	Shanghai Hualian Co., Ltd. (上海華聯商廈股份有限公司)
116	Shanghai Chlor-Alkali Chemical Co., Ltd. (上海氯鹼化工股份有限公司)
117	Tian An (Shanghai) Investments Co., Ltd. (天安（上海）投資有限公司)
118	Shanghai Jinxing Trading Company (上海金興貿易公司)
119	Integrated Service Department of Shanghai University of Finance and Economics (上海財經大學綜合服務部)
120	China Real Estate Development Company Ningbo Company (中國房地產開發集團寧波公司)
121	Harbin Pharmaceutical Holdings Co., Ltd. (哈爾濱醫藥集團股份有限公司)
122	Kunming Kunji Group Co., Ltd. (昆明昆機集團公司)
123	Nanjing Chemical Industries Co., Ltd. (南京化學工業公司)
124	Shanghai Fishing Boat Factory (上海漁輪廠)
125	Shanghai Elevator Company of Zhongxun Elevator Company (中迅電梯公司上海電梯公司)
126	China North Industries Shanghai Corporation (中國北方工業上海公司)
127	711 Research Institute of the 7th Institute of China State Shipbuilding Corporation (中船工業總公司七院七一一研究所)
128	Shanghai Minfeng Textiles Limited (上海民豐紡織印染有限公司)
129	Shanghai China International Travel Service Limited (上海中國國際旅行社)
130	Subsidiary Plant of East China University of Technology (華東工業大學附屬工廠)
131	Shanghai Turbine Works (上海汽輪機廠)
132	Shanghai Putuo Teaching Aids Factory (上海市普陀教具廠)
133	China Hi-Tech Group Company (中國高科集團公司)
134	Shanghai Design Institute of Light Industry of the Ministry of Light Industry (輕工業部上海輕工業設計院)
135	Shanghai Zhangjiang Innopark Development Company (上海市張江高科技園區開發公司)
136	Shanghai Aierqiqi Leather and Clothing Union Company (上海愛爾奇奇革皮服裝聯合公司)
137	Shanghai Research Institute of Chemical Industry of the Ministry of Chemical Industry (化工部上海化工研究院)

No.	Names of the units
138	Yangtze River Computer (Group) Company (長江計算機（集團）聯合公司)
139	Shanghai Material Trading Center Co., Ltd. (上海物資貿易中心股份有限公司)
140	Pudong Shihua Economic Development Company (浦東實華經濟發展公司)
141	China First Pencil Co., Ltd. (中國第一鉛筆股份有限公司)
142	Shanghai Boiler Works (上海鍋爐廠)
143	Zhejiang Securities Co., Ltd.（浙江證券有限公司）
144	Chongqing Iron and Steel Design Institute（重慶鋼鐵設計院）
145	Tianjin Port Storage & Transportation Company（天津港儲運公司）
146	Guangxi International Trust Investment Company (廣西國際信託投資公司)
147	Ningbo International Trust Investment Company (寧波國際信託投資公司)
148	Yangzhou CCB Trust Investment Company (揚州市建行信託投資公司)
149	China Textile Machinery Industry Corporation
150	CCB (Dalian) Trust Investment Company (建行大連信託投資公司)
151	Jiading Container Factory (嘉定集裝箱廠)
152	Shanghai Huaneng Industrial Company (上海華能實業公司)
153	Shanghai Labor Service Company (上海市勞動服務公司)
154	Shanghai Pudong Zhehai Economic and Trading Industrial Head Corporation (上海浦東浙海經貿實業總公司)
155	Shanghai Innovation and Technology Company (上海創新科技公司)
156	Shanghai Jinjiang Shipping Co., Ltd.
157	Sinotrans Shanghai Company (中國外運上海公司)
158	Shanghai Textile Industry Development Company (上海紡織工工業經營開發公司)
159	The Second Housing Construction Company (第二住宅建築公司)
160	Shanghai Institute of Iron & Steel Technology
161	Shanghai Metallurgical Design Institute
162	Beijing offices of Budapest Trade Center in China (中國布達佩斯貿易中心駐京辦事處)
163	Shanghai Far East Aviation Technology Import and Export Company
164	Shanghai Light Industry Company for Foreign Economic and Technical Cooperation (上海輕工對外經濟技術合作公司)
165	Shanghai Liangda Service Company（上海良達服務公司）
166	Shanghai Petroleum Corporation（上海市石油總公司）
167	Shanghai Changning Real Estate Group Company（上海長寧房地產集團公司）
168	Shanghai Livestock Import and Export Corporation（Pudong Company） (上海市畜產進出口公司浦東公司)
169	Tongji Science & Technology Industrial Co., Ltd.
170	Shanghai Foreign Trade Corporation (上海市對外貿易公司)
171	Shanghai Nankong Arsenal (上海南空軍械廠)
172	Shanghai Metropolitan Corporation (上海大都市總公司)
173	Shanghai Huchang Special Steel Co., Ltd. (上海滬昌特殊鋼股份有限公司)
174	Shanghai Children and Youth Activity Foundation (上海市兒童少年活動基金會)
175	Shanghai Fenghua Ballpoint Pen Co., Ltd. (上海豐華圓珠筆股份有限公司)
176	Shanghai Lianghua Industrial Co., Ltd. (上海良華實業股份有限公司)
177	Zhejiang Tianyi Industry and Trade Development Co., Ltd. (浙江天億工貿發展有限公司)
178	707 Institute (707研究所)
179	Yichun Jindian (宜春金店)
180	Nanjing Radio Factory (南京無線電廠)
181	China Huaneng Technology Development Corporation (中國華能技術開發公司)
182	Shanxi Xinghuacun Fen Wine Factory
183	Tianjin International Trust and Investment Corporation
184	Shaoxing Trust and Investment Company (紹興市信託投資公司)
185	Shanghai Native Produce Import and Export Corporation (上海市土產進出口公司)
186	Shanghai Kangda Textile Joint Company (上海康達紡織聯合公司)
187	Shanghai Nanshen Trading Company (上海南神貿易公司)
188	Shanghai Agricultural Reclamation Machinery Company (上海農墾農機公司)

No.	Names of the units
189	Huaneng Shanghai Branch (華能上海分公司)
190	Shanghai Shentong Real Estate Company (上海申通房地產公司)
191	Shanghai Steel Pipe Factory (上海鋼管廠)
192	Shanghai Home Electric Appliances (Group) Co., Ltd. Guangyuan Company (上海交家電（集團）公司廣源公司)
193	Light Industry Residential Corporation Fourth Branch (輕工住宅總公司第四分公司)
194	Shanghai Agricultural Machinery Supply Company (上海農機供應公司)
195	Shanghai Wanan Electric Appliance Factory (上海萬安電器廠)
196	Shanghai Xin Jing An Real Estate Corporation Limited
197	Heilongjiang International Trust and Investment Corporation (黑龍江省國際信託投資公司)
198	Shanghai Bocom Financial Building Co., Ltd. (上海交銀金融大廈有限公司)
199	Shanghai Jin Jiang Hotels (上海錦江飯店)
200	Shanghai Textiles IMP&EXP CO., LTD (上海市紡織品進出口公司)
201	Shanghai Seventh Cotton Mill (上海第七棉紡廠)
202	Shanghai Gas Company (上海市煤氣公司)
203	Chengdu Renmin Shangchang (成都人民商場)
204	Hai Tong Securities Limited (海通證券有限公司)
205	State-owned Xiaoshan Xianghu Industrial Company (國營肖山湘湖實業公司)
206	China Investment Development Limited
207	Pacific Securities Institute (太平洋證券研究所)
208	Shanghai Chongming Textile Machinery Parts Factory (上海崇明紡織機械配件廠)
209	Shanghai Lianyi Textile Industry and Trade Joint Company (上海聯誼紡織品工貿聯合公司)
210	Shanghai First Textile Machinery Factory (上海第一紡織機械廠)
211	Shanghai Water Supply Company (上海市自來水公司)
212	Shanghai Light Industry University (上海市輕工業職工大學)
213	Shanghai Nanmo Fine Chemical Factory (上海南墨精細化工廠)
214	Shanghai Industrial Sewing Machine Factory (上海工業縫紉機廠)
215	Shanghai People's Fine Arts Publishing House
216	Shanghai Aerospace Bureau No. 809 Research Institute (上海航天局第809研究所)
217	Shanghai Daily Chemical Company (上海日用化學公司)
218	Shanghai Humo Steel Electrical Appliance Factory (上海滬墨矽鋼電器廠)
219	Shanghai Port Machinery Plant under Ministry of Communications (交通都上海港口機械製造廠)
220	Shanghai Cement (Group) Company (上海水泥（集團）公司)
221	Nantong Huajin Woolen Co., Ltd. (南通華金毛紡有限公司)
222	Jiangyin Tire Company (江陰市輪胎公司)
223	Xi'an Jiefang Group Co., Ltd. (西安解放百貨股份有限公司)

Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the **[REDACTED]** and the related transactions described in this document.

G. Qualification of Experts

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this document, are as follows:

Name	Qualification
Shenwan Hongyuan Capital (H.K.) Limited	A corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities

Name	Qualification
Goldman Sachs (Asia) L.L.C.	A corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
ICBC International Capital Limited	A corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
ABCI Capital Limited	A corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
KPMG	Certified Public Accountants
King & Wood Mallesons	PRC legal advisors

H. Consents of Experts

Each of the experts named in paragraph G of this Appendix has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

Save as disclosed in this document, none of the experts named above has any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

I. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer is effected on the H Share register of members of the Company, including in circumstances where such transaction is effect on the Hong Kong Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK$2.00 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see "Appendix III—Taxation and Foreign Exchange."

J. No Material and Adverse Change

Our Directors confirm that there has been no material and adverse change in the financial or trading position of the Group since December 31, 2018.

K. Binding Effect

This document shall have the effect, if an **[REDACTED]** is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

L. Related Party Transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this document as mentioned in "Appendix IA—Accountants' Report—II Notes to the Historical Financial Information—Related Party Relationships and Transactions."

M. Restriction on Share Repurchases

For details of the restrictions on share repurchases by the Company, please refer to "Appendix V — Summary of Articles of Association."

N. Miscellaneous

Save as disclosed in this document:

(a) within the two years immediately preceding the date of this document:

  (i) no share or loan capital of the Group has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

  (ii) no share or loan capital of the Group is under option or is agreed conditionally or unconditionally to be put under option;

  (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share of the Group; and

  (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of the Company;

(b) there are no founder, management or deferred shares or any debentures in the Group;

(c) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this document;

(d) the Company has no outstanding convertible debt securities or debentures;

(e) there is no arrangement under which future dividends are waived or agreed to be waived;

(f) save for our A Shares and other debt securities which are listed on the Shenzhen Stock Exchange, none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures; and

(h) all necessary arrangements have been made to enable the H shares to be admitted into CCASS for clearing and settlement.

O. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the WHITE, YELLOW and GREEN **[REDACTED]**;

(b) copies of material contracts referred to in "2. Further Information About Our Business—A. Summary of Our Material Contracts" in Appendix VI; and

(c) the written consents referred to in "5. Other information—H. Consents of Experts" in Appendix VI.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 27th Floor, Jardine House, One Connaught Place, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Articles of Association of the Company;

(b) the Accountants' Report from KPMG, the text of which is set out in Appendix I;

(c) the report from KPMG relating to the unaudited **[REDACTED]** financial information, the text of which is set out in Appendix II;

(d) the audited consolidated financial statements of our Group for three financial years ended December 31, 2016, 2017 and 2018;

(e) the material contracts referred to in "2. Further Information About Our Business—A. Summary of Our Material Contracts" in Appendix VI;

(f) the written consents referred to in "5. Other information—H. Consents of Experts" in Appendix VI;

(g) the contracts referred to in "3. Further Information About Our Directors and Supervisors—A. Particulars of Directors' and Supervisors' Contracts" in Appendix VI;

(h) the legal opinions issued by King & Wood Mallesons, our legal advisor as to PRC law, in respect of our general matters and property interests of the Group;

(i) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations; and

(j) the Shenzhen Stock Exchange Listing Rules, together with an unofficial English translation.