



# 中州证券

## Central China Securities Co., Ltd.

(a joint stock company incorporated in 2002 in Henan Province, the People's Republic of China with limited liability under the Chinese corporate name “中原证券股份有限公司” and carrying on business in Hong Kong as “中州证券”)

Stock Code: 01375

## Global Offering

Sole Sponsor and Lead Global Coordinator



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



## IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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<b>Number of Offer Shares under the Global Offering</b>	<b>: 598,100,000 H Shares</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 59,810,000 H Shares (subject to adjustment)</b>
<b>Number of International Offer Shares</b>	<b>: 538,290,000 H Shares (subject to adjustment)</b>
<b>Maximum Offer Price</b>	<b>: HK\$3.14 per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)</b>
<b>Nominal value</b>	<b>: RMB1.00 per H Share</b>
<b>Stock code</b>	<b>: 01375</b>

### Sole Sponsor and Lead Global Coordinator



### Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



### Joint Bookrunners and Joint Lead Managers



### Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, June 17, 2014 (Hong Kong time) and, in any event, not later than Saturday, June 21, 2014 (Hong Kong time). The Offer Price will be not more than HK\$3.14 and is currently expected to be not less than HK\$2.51 per Offer Share. If, for any reason, the Offer Price is not agreed by Saturday, June 21, 2014 (Hong Kong time) between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Share are required to pay, on application, the maximum Offer Price of HK\$3.14 for each Hong Kong Offer Share together with a brokerage fee of 1.0%, a SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$3.14.

The Joint Global Coordinators, on behalf of the Underwriters, and with our consent may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that is stated in this prospectus (which is HK\$2.51 to HK\$3.14) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price 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 Hong Kong Public Offering. Such notices will also be available on the website of our Company at [www.ccnw.com](http://www.ccnw.com) and on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Further details are set forth in “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus.

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 Principal Legal and Regulatory Provisions” and “Appendix V – Summary of Articles of Association” to this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See “Underwriting – Grounds for Termination” of this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

June 11, 2014

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## EXPECTED TIMETABLE

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Date<sup>(1)</sup>

Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <b>www.eipo.com.hk</b> <sup>(2)</sup> .....	11:30 a.m. on Monday, June 16, 2014
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Monday, June 16, 2014
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms .....	12:00 noon on Monday, June 16, 2014
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Monday, June 16, 2014
Latest time to complete payment for <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Monday, June 16, 2014
Application lists close .....	12:00 noon on Monday, June 16, 2014
Expected Price Determination Date .....	Tuesday, June 17, 2014

Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares will be published (a) in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and; (b) on our website at **www.ccnew.com**<sup>(5)</sup> and the website of Hong Kong Exchange and Clearing Limited at **www.hkexnews.hk**<sup>(6)</sup> on or before .. Tuesday, June 24, 2014



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## EXPECTED TIMETABLE

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- Results of allocations in the Hong Kong Public Offering  
(with successful applicants' identification document numbers,  
where appropriate) will be available through a variety of  
channels as described in the section headed  
"How to Apply for the Hong Kong Offer Shares –  
Publication of Results" in this prospectus from . . . . . Tuesday, June 24, 2014
- Results of allocations in the Hong Kong Public Offering  
(with successful applicants' identification document numbers,  
where appropriate) will be available at **www.iporesults.com.hk**  
with a "search by ID" function . . . . . Tuesday, June 24, 2014
- H Share certificates in respect of wholly or  
partially successful applications will be dispatched or  
deposited into CCASS on or before<sup>(7)</sup> . . . . . Tuesday, June 24, 2014
- Refund cheques (if applicable) will be dispatched  
on or before<sup>(7 and 9)</sup> . . . . . Tuesday, June 24, 2014
- White Form e-Refund Payment Instructions will be dispatched  
on or before<sup>(7, 8 and 9)</sup> . . . . . Tuesday, June 24, 2014
- Dealings in H Shares on the Hong Kong Stock Exchange to  
commence at 9:00 a.m. on . . . . . Wednesday, June 25, 2014

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- (1) All dates and times refer to Hong Kong dates and local time unless otherwise stated.
  - (2) If you have already submitted your application through the designated website at **www.eipo.com.hk** and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications.
  - (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, June 16, 2014, the application lists will not open on that day. See "How to Apply for the Hong Kong Offer Shares – Effect of Bad Weather on the Opening of the Application Lists" of this prospectus.
  - (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see "How to Apply for the Hong Kong Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS" of this prospectus.
  - (5) None of the website or any of the information contained on the website forms part of this prospectus.
  - (6) The announcement will be available for viewing on the Hong Kong Stock Exchange's website at **www.hkexnews.hk**.
  - (7) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and H Share certificates (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, June 24, 2014. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable Computershare Hong Kong Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in "How to Apply for Hong Kong Offer Shares" in this prospectus.
  - (8) Applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account, may have e-Refund payment instructions (if any) dispatched to their application payment bank account. Applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts, may have refund cheques sent to the address specified in their application instructions to the designated **White Form eIPO** Service Provider by ordinary post and at their own risk.
  - (9) White Form e-Refund Payment Instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

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## EXPECTED TIMETABLE

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The H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about June 25, 2014. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

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*This prospectus is issued by Central China Securities Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application 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 prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Joint Global Coordinators (which include the Lead Global Coordinator), the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained on our website, located at [www.ccnew.com](http://www.ccnew.com), does not form part of this prospectus.*

*We are a joint stock company incorporated in 2002 in Henan Province in the PRC with limited liability under the Chinese corporate name 中原证券股份有限公司 and carrying on business in Hong Kong as 中州证券. We are not in any way connected with or related to 中原證券有限公司 (Centaline Securities Limited) or any of its associates (including Centaline Property Agency Limited (中原地產代理有限公司)).*

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## SUMMARY

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

*There are risks associated with any investment in the Offer Shares. We set out some of the particular risks in investing in the Offer Shares in “Risk Factors,” beginning on page 32 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are a leading securities firm in Henan with a full-service business platform and strategic presence in the PRC. We are the only securities firm registered and headquartered in Henan, which is the most populous province in China with the highest GDP among the 18 provinces in the central and western regions of China. Through over 11 years of operating history, we have developed a deep insight into the Henan securities market and built sound relationships with local government authorities, corporations and retail clients, thereby establishing a strong local advantage and brand recognition compared to our competitors, which we refer to as our “Henan Advantage.”

We operate our business primarily in Henan, whose GDP accounted for approximately 5.7% of China’s GDP in 2013. Henan has considerable potential for securities industry development. As of December 31, 2013, the securitization ratio (total market capitalization of domestically listed companies divided by nominal GDP) in Henan was 13.7%, far behind the national average of 42.1%. Henan government authorities have placed strong emphasis on the development of local capital markets and intend to facilitate corporate financing by qualified corporations through IPOs, secondary offerings and bond offerings, and to build a Regional OTC Board to promote a multi-tiered capital market system. We intend to leverage our “Henan Advantage” to capitalize on the potential for securities industry development in Henan, as well as the abundant business opportunities emerging from the fast-growing capital markets in China.

### Our Business Model

We principally engage in the brokerage, investment banking, investment management and proprietary trading businesses. Our principal business lines include:

- **Brokerage:** We engage in the trading of stocks, funds and bonds on behalf of our clients, and provide margin financing and securities lending and wealth management services. In return, we principally earn commission and fee income and interest income. We operate our futures brokerage business through our subsidiary, Central China Futures. As of December 31, 2013, we had over 1,350,000 brokerage customers.
- **Investment banking:** We provide investment banking services, including equity financing, debt financing and financial advisory, to institutional clients. In return, we principally earn commission and fee income.



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## SUMMARY

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- **Investment management:** Our investment management business includes asset management, direct investment and fund management. Our asset management business mainly offers collective asset management schemes and targeted asset management schemes. We operate our direct investment business through our wholly owned subsidiary, ZDKY Venture Capital, and we operate our fund management business through Ashmore-CCSC Fund Management, in which we own a controlling stake. In return, we principally earn management and performance fees.
- **Proprietary trading:** We engage in the trading of stocks, bonds and funds as well as derivatives for our own account with the objective of achieving investment gains.
- **Other innovative business:** We use the funds we own or raise to engage in other types of capital-based intermediary businesses, such as securities-backed lending and securities repurchase.

### Our Market Positions

We have gained leading market positions in both brokerage and investment banking businesses in Henan. According to Wind Info and the Securities and Futures Association of Henan, among all PRC securities firms, we:

- ranked first in Henan throughout the Track Record Period in terms of the brokerage trading volume of stocks and funds;
- ranked first in Henan in terms of the revenue from securities branches in Henan, representing 28.9% of the local market share in 2013;
- ranked first in Henan in terms of the balance of margin loans and securities lent as of December 31, 2013, representing approximately 24.2% of the local market share as of December 31, 2013;
- ranked first in Henan in terms of the total amount of equity financing underwritten in both 2012 and 2013;
- ranked first in 2012 and second in 2013 in Henan in terms of the total amount of debt financing underwritten; and
- ranked first in 2012 and ninth in 2013 in China in terms of the number of private companies recommended for share quotation and transfer on the NEEQ.

According to the SAC, in 2012, net revenue from our securities brokerage and underwriting and sponsorship businesses ranked 39th and 36th, respectively, among all 115 PRC securities firms, representing 0.8% and 0.7%, respectively, of the total market share in China. In 2012, our Company's profit (under PRC GAAP) ranked 36th among PRC securities firms, according to the SAC, representing 0.6% of the total market share in China.

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## SUMMARY

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We have the most extensive branch network with the largest number of branches in Henan and our business has been focused on the Henan market. In 2011, 2012 and 2013, 92.0%, 91.3% and 89.3%, respectively, of the revenue and other income from our securities brokerage business was originated in Henan. In recent years, we have strategically expanded our branch network outside Henan, enabling us to source high-end customers and business opportunities across the nation and to form increased synergies with our branch network in Henan. As of the Latest Practicable Date, we had 62 securities branches and five futures branches, with 49 securities branches and three futures branches located in Henan and the remainder strategically located across major cities in China, such as Beijing, Shanghai and Shenzhen.

### **Our Business Direction**

We have been actively developing various types of capital-based intermediary businesses, such as margin financing and securities lending, securities-backed lending and securities repurchase. Our margin financing and securities lending business has grown rapidly since its launch in July 2012 and the balance of our margin loans and securities lent increased significantly from RMB210.8 million as of December 31, 2012 to RMB2,266.8 million as of December 31, 2013. In 2012 and 2013, segment revenue and other income from our margin financing and securities lending business were RMB6.1 million and RMB155.8 million, and segment results of this emerging business were RMB1.7 million and RMB88.1 million, respectively. To better meet our clients' needs for financing and liquidity, we launched our securities repurchase business in October 2012 and our securities-backed lending business in August 2013. As of December 31, 2013, the balance of our securities-backed lending and securities repurchase amounted to RMB254.6 million and RMB72.1 million, respectively. We expect to continue to expand our capital-based intermediary businesses, which we believe will contribute considerably to our revenue and profit growth.

### **Our Growth Highlights**

We have achieved rapid growth and enhanced profitability during the Track Record Period. The principal factors affecting the growth of our revenue and profits during the Track Record Period include (i) market conditions and securities trading volume in China; (ii) our brokerage commission and fee rate and the market competition we face from other securities firms; and (iii) our business mix and our ability to offer innovative products and services with relatively higher profit margins, such as margin financing and securities lending. Our revenue and other income increased by 26.1% from RMB966.3 million in 2011 to RMB1,218.5 million in 2012 and further increased by 17.7% to RMB1,434.6 million in 2013, representing a CAGR of 21.8%. Our profit increased by 97.4% from RMB92.8 million in 2011 to RMB183.2 million in 2012 and further increased by 30.1% to RMB238.4 million in 2013, representing a CAGR of 60.3%. According to the SAC, our Company's profit (under PRC GAAP) increased by 84.4% in 2012 and 48.5% in 2013, outperforming the average industry growth rate of negative 16.4% in 2012 and 33.7% in 2013, and our profit CAGR from 2011 to 2013 also outperformed all other PRC securities firms listed in Hong Kong during the same period.

### **COMPETITIVE STRENGTHS**

Our principal competitive strengths include:

- Well-positioned to benefit from the significant potential for economic growth and securities industry development in Henan;

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## SUMMARY

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- Leading branch network and customer base in Henan, complemented by our strategic presence across China;
- Leading brokerage and investment banking businesses in Henan with a diversified and collaborative business platform;
- Continuous and strong innovative capabilities enabling us to capitalize on opportunities from PRC securities industry reform;
- Optimized business structure and rapid profit growth;
- Outstanding management team and market-oriented human resources management; and
- Effective risk management systems and internal controls, advanced IT system and leading “Total Cost Management” capability.

### **BUSINESS STRATEGIES**

Our vision is to become a PRC-leading and world-known financial services provider. We intend to capitalize on the potential for economic growth in Henan and the business opportunities emerging from the fast-growing capital markets in China. We will continue to strengthen our brokerage, investment banking and investment management businesses while striving to develop our capital-based intermediary businesses in order to achieve sustainable growth. Our business strategies include:

- Capitalize on the growth potential of the Henan securities industry and advance the transition of our brokerage business;
- Capture opportunities from PRC securities industry reform to strengthen our regional advantage and innovative capability in our investment banking business;
- Leverage synergies with other business lines and competitive strengths to enhance our investment management business;
- Improve return on equity by focusing on capital-based intermediary businesses and increasing leverage ratio;
- Strengthen capital management, risk management, internal controls and IT capabilities to improve overall operational efficiency; and
- Reinforce our human resources management for effectively attracting, incentivizing and retaining talented professionals.

### **OUR CONTROLLING SHAREHOLDER**

As of the Latest Practicable Date, our Controlling Shareholder, Henan Investment Group, held approximately 44.846% of our issued share capital. Henan Investment Group is a wholly state-owned company and an investment and financing entity of the Henan government, primarily engaging in investments in infrastructure development and various other industries. Immediately following the completion of the Global Offering, Henan Investment Group will hold approximately 33.096% of our enlarged issued share capital and remain as our Controlling Shareholder.

## SUMMARY

As the business scope between our principal business and that of Henan Investment Group are different (except for the businesses engaged in by certain excluded business companies), there is no other material business operated by Henan Investment Group that competes or is likely to compete with our principal business. In addition, we entered into a non-competition agreement with Henan Investment Group on March 10, 2014. See “Relationship with our Controlling Shareholder” beginning on page 240.

### BUSINESS NAME IN HONG KONG

Since our establishment in Henan in 2002, we have been carrying on business under the name 中原证券股份有限公司 in the PRC. We are not in any way connected with or related to 中原證券有限公司 (Centaline Securities Limited) or any of its associates (including Centaline Property Agency Limited (中原地產代理有限公司)). To minimize the potential risks of legal proceedings, we carry on business as 中州證券 in Hong Kong and have taken additional measures for this purpose. For more details, see “Business – Intellectual Property Rights” beginning on page 197.

### SUMMARY OF FINANCIAL AND OPERATING INFORMATION

The following tables present our summary consolidated financial information as of and for the years ended December 31, 2011, 2012 and 2013. We have derived this summary from our consolidated financial information set forth in the Accountant’s Report in Appendix I to this prospectus. You should read this summary in conjunction with our consolidated financial information included in the Accountant’s Report in Appendix I to this prospectus, including the accompanying notes, and the information set forth in “Financial Information.”

#### Summary Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
<b>Revenue</b>			
– Commission and fee income . . . . .	822.0	737.2	953.3
– Interest income . . . . .	134.0	142.8	286.7
– Net investment (losses)/gains . . . . .	(62.2)	321.4	158.6
<b>Total revenue</b> . . . . .	<b>893.8</b>	<b>1,201.4</b>	<b>1,398.6</b>
Other income and gains . . . . .	72.5	17.1	36.0
<b>Total revenue and other income</b> . . . . .	<b>966.3</b>	<b>1,218.5</b>	<b>1,434.6</b>
<b>Total expenses</b> . . . . .	<b>(829.3)</b>	<b>(961.3)</b>	<b>(1,096.4)</b>
<b>Profit before income tax</b> . . . . .	<b>137.0</b>	<b>257.2</b>	<b>338.2</b>
Income tax expense . . . . .	(44.2)	(74.0)	(99.8)
<b>Profit for the year</b> . . . . .	<b>92.8</b>	<b>183.2</b>	<b>238.4</b>

## SUMMARY

### Summary Consolidated Statements of Financial Position

	As of December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Total current assets . . . . .	10,312.3	10,420.2	12,776.7
Total current liabilities . . . . .	7,360.5	7,362.1	9,474.1
Net current assets . . . . .	2,951.8	3,058.1	3,302.6
Total assets less current liabilities . . . . .	3,626.8	3,841.4	4,175.5

### Summary Consolidated Cash Flow Statements

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Net cash (outflow)/inflow from operating activities . .	(1,117.4) <sup>(1)</sup>	292.8	(971.8) <sup>(2)</sup>
Net cash (outflow)/inflow from investing activities . .	(155.3)	292.2	(226.9)
Net cash (outflow)/inflow from financing activities . .	(447.4)	4.0	922.5
Net (decrease)/increase in cash and cash equivalents .	(1,720.1)	589.0	(276.2)
Cash and cash equivalents at beginning of the year . .	2,164.7	444.2	1,033.2
Effect of foreign exchange rate changes . . . . .	(0.4)	-	(1.5)
Cash and cash equivalents at end of the year . . . . .	444.2	1,033.2	755.5

- (1) In 2011, we had profit before tax of RMB137.0 million. However, we reported RMB1,893.4 million of net increase in our financial assets held for trading, which reflected our investment strategies to increase long positions in our proprietary trading activities. As a result, we recorded negative operating cash flows of RMB1,117.4 million during the same year.
- (2) In 2013, we had profit before tax of RMB338.2 million. However, following the commencement of our margin financing and securities lending business in July 2012, we had actively expanded the scale of margin loans to brokerage customers in 2013 and recorded a net increase of RMB2,048.6 million in our margin accounts receivable in 2013. As a result, we reported negative operating cash flows of RMB971.8 million during the same year.

### Key Financial Data and Operating Indicators

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions, except percentages)</i>		
<b>Operating profit</b> <sup>(1)</sup> . . . . .	64.5	240.1	302.2
Operating margin <sup>(2)</sup> . . . . .	7.2%	20.0%	21.6%
Adjusted operating margin <sup>(3)(6)</sup> . . . . .	9.2%	23.9%	26.1%
<b>Profit</b> . . . . .	92.8	183.2	238.4
Net margin <sup>(4)</sup> . . . . .	10.4%	15.2%	17.0%
Adjusted net margin <sup>(5)(6)</sup> . . . . .	13.2%	18.3%	20.6%
<b>Return on equity</b> <sup>(7)</sup> . . . . .	2.4%	4.9%	6.4%
<b>Return on assets</b> <sup>(8)</sup> . . . . .	1.8%	3.1%	3.3%

- (1) Operating profit = total revenue - total expenses
- (2) Operating margin = (total revenue - total expenses) / total revenue
- (3) Adjusted operating margin = (total revenue - total expenses) / (total revenue - commission and fee expenses - interest expenses)



## SUMMARY

- (4) Net margin = profit / total revenue
- (5) Adjusted net margin = profit / (total revenue - commission and fee expenses - interest expenses)
- (6) Adjusted operating margin and adjusted net margin are not standard measures under IFRS, but are presented here because PRC securities companies present their operating revenues after deduction of commission and fee expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. Prospective investors should be aware that the adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.
- (7) Profit attributable to Shareholders of the Company divided by the average balance of total equity attributable to Shareholders of the Company as of the beginning and end of a period
- (8) Profit for the year divided by the average balance of total assets (excluding accounts payable to brokerage clients) as of the beginning and end of a period

The following table sets forth our revenue and other income by segment for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%
Brokerage						
– Securities brokerage . . . . .	706.1	73.1	494.1	40.5	678.9	47.3
– Margin financing and Securities lending . . . . .	–	–	6.1	0.5	155.8	10.9
– Futures brokerage . . . . .	34.7	3.6	50.0	4.1	66.6	4.6
Investment banking . . . . .	74.5	7.7	172.8	14.2	164.9	11.5
Investment management . . . . .	17.3	1.7	39.3	3.2	17.5	1.2
Proprietary trading . . . . .	(53.2)	(5.5)	324.1	26.6	204.0	14.2
Headquarters and others <sup>(1)</sup> . . . . .	188.0 <sup>(2)</sup>	19.5	133.5	11.0	148.7	10.4
Inter-segment elimination . . . . .	(1.1)	(0.1)	(1.4)	(0.1)	(1.8)	(0.1)
<b>Total . . . . .</b>	<b>966.3</b>	<b>100.0</b>	<b>1,218.5</b>	<b>100.0</b>	<b>1,434.6</b>	<b>100.0</b>

- (1) Includes interest income from securities-backed lending and securities repurchases, and interest income from our own deposits and deposits we hold on behalf of our customers, as well as other income, such as government grants and rental income
- (2) Includes a non-recurring gain of RMB35.7 million, due to a one-off disposal of idle properties in 2011

The following table sets forth our segment margins for the years indicated, which is calculated as the segment result (including inter-segment results) divided by the segment revenue and other income (including inter-segment revenue).

	Year ended December 31,		
	2011	2012	2013
	%	%	%
Securities brokerage . . . . .	25.4	10.1	30.5
Margin financing and securities lending . . . . .	–	27.9	56.5
Futures brokerage . . . . .	10.4	17.2	19.2
Investment banking . . . . .	(17.9)	7.1	22.4
Investment management . . . . .	13.3	4.3	(346.3)
Proprietary trading . . . . .	N/A	68.4	40.9
Headquarters and others . . . . .	18.8	(29.2)	(19.7)
<b>Total<sup>(1)</sup> . . . . .</b>	<b>14.2</b>	<b>21.1</b>	<b>23.6</b>

- (1) Compared to our operating margins, our segment margins have included the effect of other income and gains. Our operating margin was 7.2%, 20.0%, 21.6% in 2011, 2012 and 2013, respectively.

## SUMMARY

For a discussion of our segment results, see “Financial Information – Segment Results” on page 279.

The following table sets forth the key operating data of our principal business lines for the years indicated:

	As of or for the year ended December 31,		
	2011	2012	2013
Securities brokerage trading volume (RMB in billions) <sup>(1)</sup> . . . . .	534.3	389.8	588.3
Average securities brokerage commission rate <sup>(2)</sup> . . . . .	0.124%	0.119%	0.115%
Balance of margin loans and securities lent (RMB in millions) . . . . .	–	210.8	2,266.8
Amount of equity securities underwritten (RMB in millions) . . . . .	439.4	9,381.1	2,247.0
Amount of debt securities underwritten (RMB in millions) . . . . .	800.0	4,940.0	8,400.0
AUM (RMB in millions) . . . . .	1,076.2	7,364.8	2,363.1
Average investment amount of proprietary trading (RMB in millions) <sup>(3)</sup> . . . . .	3,000.0	2,161.5	1,980.2
Average return on proprietary trading (%) <sup>(4)</sup> . . . . .	(2.1)	12.9	6.3

(1) Includes brokerage trading volumes of stocks, funds, warrants and bonds.

(2) Average securities brokerage commission rate = commission and fee income on securities brokerage on stocks and funds/trading volume of stocks and funds.

(3) Average investment amount = aggregate of daily funds used by our proprietary trading activities/365.

(4) Average return = Net revenue/Average investment amount. Net revenue = income associated with proprietary trading business (including but not limited to investment income and interest income) - cost associated with proprietary trading business (including but not limited to cost of funding and interest cost).

## RISK MANAGEMENT AND CAPITAL ADEQUACY

We have established comprehensive risk management systems and internal controls that enable us to identify, evaluate and manage market, credit, liquidity and operational risks in our business. In addition, we have established a dynamic risk control indicator based on Net Capital, which enables the monitoring, early-warning and reporting of various risks. We have standardized sensitivity analysis and stress testing procedures for various risks across all business lines and conduct stress testing on regular and *ad hoc* basis to help us optimize our asset allocation and mitigate risks. For each of 2011, 2012 and 2013, we received a “BBB” regulatory rating from the CSRC.

According to the Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC, or the Risk Control Indicators Measures, we have established a dynamic net capital 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 engage, among others, securities brokerage, investment banking, proprietary trading and asset management businesses. As of December 31, 2011, 2012 and 2013, we were in compliance with all of our capital adequacy and risk control indicator requirements. As of December 31, 2013, our Net Capital amounted to RMB2.9 billion. See “Financial Information – Capital Adequacy and Risk Control Indicators” on page 300.

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## SUMMARY

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In addition to the risk control indicators mentioned above, the Risk Control Indicator Measures require us to comply with other requirements when we engage in proprietary trading and margin financing and securities lending businesses. We closely monitor all risk control indicators when conducting our proprietary trading and margin financing and securities lending businesses. During the Track Record Period, we had no incidents of non-compliance with these risk control indicators nor did we receive any warnings or become subject to any penalties imposed by the CSRC. See “Business – Legal and Regulatory” beginning on page 203.

### **RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE**

Our total revenue and other income increased by 19.6% to RMB539.1 million in the four months ended April 30, 2014 compared to RMB450.6 million in the same period in 2013, due primarily to the increases in our segment revenue and other income from margin financing and securities lending, securities brokerage as well as headquarters and others, principally as a result of (i) substantial growth of our capital-based intermediary businesses, including margin financing and securities lending, securities-backed lending and securities repurchase; and (ii) our increased market shares and brokerage trading volume during the four months ended April 30, 2014. These increases were partially offset by (i) a decrease in our segment revenue and other income from the proprietary trading business due primarily to our reduced average investment amount and less favorable stock and bond markets in China; and (ii) a decrease in our segment revenue and other income from the investment management business due primarily to the RMB22.1 million of provisions we set aside for potential liabilities for our credit enhancement under our Yanhuang No. 1 collective asset management scheme during the four months ended April 30, 2014.

As of April 30, 2014, the balance of our margin loans and securities lent increased by 16.4% to RMB2,639.5 million from RMB2,266.8 million as of December 31, 2013. As of April 30, 2014, the aggregate balance of our securities-backed lending and securities repurchase increased by 89.1% to RMB617.8 million from RMB326.7 million as of December 31, 2013. Our securities brokerage trading volume increased by 25.5% to RMB208.4 billion in the four months ended April 30, 2014 from RMB166.0 billion in the same period in 2013. Our average brokerage commission fee rate decreased from 0.119% in the four months ended April 30, 2013 to 0.111% during the fourth quarter of 2013 and further decreased to 0.106% in the four months ended April 30, 2014. The market share of our brokerage business in China increased from 0.586% in the four months ended April 30, 2013 to 0.624% during the fourth quarter of 2013 and further increased to 0.639% in the four months ended April 30, 2014. Our average investment amount decreased in the four months ended April 30, 2014 because we allocated more capital for developing our capital-based intermediary businesses.

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## SUMMARY

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The financial information for the four months ended April 30, 2014 as mentioned above was extracted from our interim financial information for the four months ended April 30, 2014 which has been reviewed by our reporting accountant in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. Prospective investors should note that our four-month financial and business performance fluctuate during a financial year and are not indicators of our operating results for an interim period or a whole year.

On January 9, 2014, we issued the second tranche of short-term notes with a principal amount of RMB900.0 million in the national interbank bond market through a bidding process. This tranche of short-term notes has a term of 90 days and bears an interest rate of 6.65%, an issuer rating of AA and a bond rating of A-1. We fully repaid the second tranche on April 10, 2014. On April 4, 2014, we issued the third tranche of short-term notes with a principal amount of RMB800.0 million. The third tranche of short-term notes bears an interest rate of 5.0% and has the same maturity term and ratings as the previous two tranches. For details of our short-term notes, see “Financial Information – Liquidity and Capital Resources – Indebtedness” on page 296. We used the proceeds from our short-term notes for replenishing our working capital and intend to issue additional tranches of short-term notes in 2014, subject to market conditions and our capital requirements.

On April 25, 2014, we issued RMB1.5 billion of corporate bonds in China with an interest rate of 6.2% and a term of five years. Guaranteed by China Bond Insurance Co., Ltd, an Independent Third Party, our corporate bonds are rated AAA. We used the proceeds from our corporate bond issuance for replenishing our working capital. We believe that our corporate bonds can provide us with external funds on a longer term to support our business expansion, especially margin financing and securities lending business. See “Financial Information – Liquidity and Capital Resources – Indebtedness” on page 296.

As of April 30, 2014, the latest date for determining our indebtedness, we had short-term notes payable of RMB800.0 million and bonds payable of RMB1,491.7 million. As of the same date, we had RMB2,950.0 million of banking facilities, all of which were unutilized and unrestricted.

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that there is no event which could materially affect the information shown in our consolidated financial statements included in the Accountant’s Report set forth in Appendix I to this prospectus since December 31, 2013 and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

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## SUMMARY

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### USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,582.4 million from the Global Offering after deducting the underwriting commission and other estimated expenses in connection with the Global Offering. In line with our strategies, we intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 50.0%, or HK\$791.2 million, will be used to further develop our margin financing and securities lending business.
- Approximately 25.0%, or HK\$395.6 million, will be used to develop other capital-based intermediary businesses, such as securities-backed lending, securities repurchase and market making.
- Approximately 25.0%, or HK\$395.6 million, will be used to increase our proprietary trading of fixed-income and other securities, and to increase the registered capital of ZDKY Venture Capital for prudently expanding our direct investment business.

For more details, see “Future Plans and Use of Proceeds” beginning on page 313.

### OFFER STATISTICS

All statistics in this table are based on the assumption that no over-allotment option will be granted.

	<u>Based on an Offer Price of HK\$2.51</u>	<u>Based on an Offer Price of HK\$3.14</u>
Market capitalization <sup>(1)</sup> . . . . .	HK\$1,501 million	HK\$1,878 million
Unaudited pro forma adjusted consolidated net tangible assets per share <sup>(2)</sup> . . . . .	HK\$2.46	HK\$2.60

(1) The calculation of market capitalization is based on 598,100,000 H Shares expected to be issued and outstanding following the Global Offering.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in “Appendix II – Unaudited Pro Forma Financial Information.”

### DIVIDEND POLICY

In 2011, we distributed cash dividends of RMB447.4 million to our Shareholders. We did not declare any cash dividends in 2012 and 2013. Following the Global Offering, we plan to distribute not less than 10.0% of our distributable profits realized in that year as cash dividends in any fiscal year as long as we have profits after tax and accumulated undistributed profits in that year, except that we may decide not to distribute cash dividends because of any significant investment. At a Shareholders’ meeting on December 1, 2013, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing shareholders and new shareholders.



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## SUMMARY

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### RISK FACTORS

Our business is subject to a number of risks. We believe that 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 Global Offering. Our business may be materially and adversely affected by these risks, such as the following:

- Our business is highly dependent on the general economic and market conditions in China. Our results of operations could be materially and adversely affected by downturns in China's capital markets, which, in turn, may be affected by volatility and downturns in the global capital markets.
- The PRC securities industry is highly competitive, and our business and prospects may be materially and adversely affected if we are unable to compete effectively.
- We generate a significant portion of our revenue from our securities brokerage business, and we cannot assure you that our brokerage commission and fee income can be sustained.
- Our proprietary trading business is subject to market volatility and our investment decisions, and has experienced substantial fluctuations during the Track Record Period.
- We may suffer significant losses from our credit exposures.
- A significant decrease in our liquidity could negatively affect our business and reduce client confidence in us.
- We had negative operating cash flows in 2011 and 2013 and may continue to experience the same in the near term after the Global Offering.
- The use of our Chinese name in this prospectus and the use of it in the course of trade or business in Hong Kong may be challenged due to potential trademark infringement and passing off.

You should read "Risk Factors" beginning on page 32 in its entirety before you decide to invest in the Offer Shares.

### REGULATORY NON-COMPLIANCE AND INSPECTIONS

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, including but not limited to the CSRC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and their respective local branches and offices. We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and have received regulatory notices from the relevant regulatory authorities. However, during

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## SUMMARY

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the Track Record Period and up to the Latest Practicable Date, we were not involved in any incidents of regulatory non-compliance that led to regulatory measures or the deduction of regulatory points by the CSRC or penalties imposed by any regulatory authorities in China. In addition, we are subject to inspections and examinations by the CSRC and other regulatory agencies, which may reveal certain deficiencies with respect to our business operations, risk management and internal controls. See “Business – Legal and Regulatory” beginning on page 203 for details of the instances of non-compliance and regulatory inspections.

### **LISTING EXPENSES**

We expect to incur RMB87.7 million of listing expenses (assuming an offer price of HK\$2.83 per H Share, which is the mid-point of the stated range of the Offer Price between HK\$2.51 and HK\$3.14 per H Share) until the completion of the Global Offering, of which RMB7.7 million is expected to be charged to our consolidated statements of comprehensive income and RMB80.0 million is expected to be accounted for as a deduction from our equity. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. We do not expect these listing expenses to have a material impact on our results of operations in 2014.

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## DEFINITIONS

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

“active clients”	Clients who are not “inactive clients”; a client is an “inactive client” if the securities in the client’s account with us have a market value of zero, the fund in the client’s account is below RMB100, and the client has not conducted any trade in the past three-year period
“Anyang Economic Development”	Anyang Economic Development Group Co., Ltd. (安陽經濟開發集團有限公司), a limited liability company incorporated in the PRC on July 29, 1995, formerly Anyang Economic Technology Development Co., Ltd., which holds 2.661% of equity interest in our Company as of the Latest Practicable Date
“Anyang Iron & Steel Group”	Anyang Iron & Steel Group Co., Ltd. (安陽鋼鐵集團有限責任公司), a limited liability company incorporated in the PRC on December 27, 1995, which holds 9.673% of equity interest in our Company as of the Latest Practicable Date
“Anyang Trust”	Anyang Trust & Investment Company Limited (安陽市信託投資公司), a limited liability company incorporated in the PRC on April 2, 1999 and one of the promoters of our Company which holds no equity interest in our Company as of the Latest Practicable Date
“Application Form(s)”	<b>WHITE</b> , <b>YELLOW</b> and <b>GREEN</b> application form(s) or, where the context requires, any of them relating to the Global Offering
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix V to this prospectus
“Ashmore-CCSC Fund Management”	Ashmore-CCSC Fund Management Company Limited (中原英石基金管理有限公司), our subsidiary and a limited liability company incorporated in the PRC on January 23, 2013, in which we hold an equity interest of 51.0%
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules

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## DEFINITIONS

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“Board” or “Board of Directors”	the Board of Directors of our Company
“Bohai Fund”	Bohai Industrial Investment Fund (渤海產業投資基金), a fund approved by the NDRC, on whose behalf Bohai Fund Management holds 29.899% of the equity interests in our Company as of the Latest Practicable Date
“Bohai Fund Management”	Bohai Industrial Investment Fund Management Co., Ltd. (渤海產業投資基金管理有限公司), a limited liability company incorporated in the PRC on December 28, 2006, which holds on behalf of Bohai Fund 29.899% of the equity interests in our Company as of the Latest Practicable Date
“Bohai Rim”	the region in China comprising Beijing, Tianjin, Hebei, Liaoning and Shandong provinces
“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
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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 or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

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## DEFINITIONS

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“central and western regions of China”	the regions in China comprising the following 18 provinces, namely, Henan, Gansu, Shaanxi, Shanxi, Jiangxi, Anhui, Hubei, Yunnan, Guizhou, Sichuan, Hunan, Chongqing, Guangxi, Ningxia, Qinghai, Tibet, Inner Mongolia and Xinjiang provinces
“Central China”	the region in China comprising the following six provinces, namely, Henan, Anhui, Hubei, Hunan, Shanxi and Jiangxi provinces
“Central China Futures”	Central China Futures Co., Ltd. (中原期貨有限公司), a limited liability company incorporated in the PRC under the name of Shantou International Trading and Futures Trading Company Limited (汕頭市外貿期貨交易有限公司) on April 18, 1993, renamed as Shantou Longwei Brokerage Co., Ltd. (汕頭市龍威期貨經紀有限公司) on October 27, 1993, renamed as Zhonganxin Futures Brokerage Co., Ltd. (中安信期貨經紀有限公司) on November 23, 1995, renamed as Yuliang Futures Brokerage Co., Ltd. (豫糧期貨經紀有限公司) on May 4, 1999, renamed as Central China Futures Brokerage Co., Ltd. (中原期貨經紀有限公司) on December 25, 2007, and further renamed as Central China Futures Co., Ltd. (中原期貨有限公司) on August 2, 2010, in which we hold 92.55% of equity interest
“Central Plains Economic Zone”	an economic region in Central China, comprising the whole of Henan, and part of Shandong, Anhui, Hebei and Shanxi provinces
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, 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
“CIRC”	the China Insurance Regulatory Commission (中國保險監督管理委員會)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended and supplemented from time to time



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## DEFINITIONS

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“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“Company” “our Company” “Central China Securities”	a joint stock company incorporated on November 8, 2002 in Henan in the PRC with limited liability under the corporate name 中原证券股份有限公司 (Central China Securities Co., Ltd.) and carrying on business in Hong Kong as 中州证券
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSDCC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company as of the Latest Practicable Date
“Domestic Shares”	ordinary shares issued by our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“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
“Global Offering”	the Hong Kong Public Offering and the International Offering

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## DEFINITIONS

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“GREEN Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group,” “our 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 Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed, foreign-invested, ordinary shares issued by us with a nominal value of RMB1.00 each in the share capital of our Company, which are to be subscribed for and traded in HK dollars and for which an application has been made for listing and permission to trade on the Hong Kong Stock Exchange
“Hebi Construction and Investment”	Hebi Construction & Investment Group Co., Ltd. (鶴壁市經濟建設投資集團有限公司), a limited liability company incorporated in the PRC under the name of Hebi Development Construction & Investment Company (鶴壁市經濟發展建設投資公司) on June 30, 1994, renamed as Hebi Construction & Investment Co., Ltd. (鶴壁市經濟建設投資總公司) on October 25, 2004, and further renamed as Hebi Construction & Investment Group Co., Ltd. on April 10, 2012, and one of the promoters of our Company which holds 0.484% of equity interest in our Company as of the Latest Practicable Date
“Henan DRC”	Henan Province Development and Reform Commission (河南省發展和改革委員會)
“Henan Economic and Technology Development”	Henan Economic and Technology Development Co., Ltd. (河南省經濟技術開發公司), a limited liability company incorporated in the PRC on March 18, 1999, one of the promoters of our Company which merged with, among others, Henan Construction and Investment on December 6, 2007

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## DEFINITIONS

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“Henan Investment Group,” “Henan Construction and Investment” or “Controlling Shareholder”	Henan Investment Group Co., Ltd. (河南投資集團有限公司) a limited liability company incorporated in the PRC under the name of Henan Construction Investment Corporation (河南省建設投資總公司) on December 18, 1991, later known as Henan Investment Group Co., Ltd. after the merger with, among others, Henan Economic and Technology Development on December 6, 2007
“Henan SASAC”	State-owned Assets Supervision and Administration Commission of Henan Provincial People’s Government (河南省人民政府國有資產監督管理委員會)
“HK\$” or “HK dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC, which is a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Offer Shares”	the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the initial offering by our Company of 59,810,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering” in this prospectus) for cash at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), subject to the terms and conditions described in this prospectus and on the Application Forms as further described in “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited

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## DEFINITIONS

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“Hong Kong Underwriters”	the underwriters listed in “Underwriting – Hong Kong Underwriters” of this prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 10, 2014, relating to the Hong Kong Public Offering and entered into by, among others, the Hong Kong Underwriters and our Company, as further described in “Underwriting – Underwriting Arrangements and Expenses” in this prospectus
“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 Committee
“Independent Third Party(ies)”	party(ies) not connected with our Company and our connected persons (as defined in the Hong Kong Listing Rules) and “Independent Third Parties” shall be construed accordingly
“International Offer Shares”	the H Shares offered pursuant to the International Offering
“International Offering”	the offer for subscription of 538,290,000 H Shares to institutional professional, corporate and other investors, subject to adjustment, as further described in “Structure of the Global Offering” of this prospectus
“International Underwriters”	the group of international underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into on or about June 17, 2014, by, among others, the International Underwriters and our Company, as further described in the paragraph headed “The International Offering” under “Underwriting” of this prospectus

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## DEFINITIONS

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“Jiaozuo Economic and Technology Development”	Jiaozuo Economic and Technology Development Co., Ltd. (焦作市經濟技術開發有限公司), a limited liability company incorporated in the PRC on October 8, 1998, and one of the promoters of our Company which holds 0.742% of equity interest in our Company as of the Latest Practicable Date
“Joint Bookrunners”	CCB International Capital Limited, ICBC International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited, DBS Asia Capital Limited, ABCI Capital Limited, BOCI Asia Limited and GF Securities (Hong Kong) Brokerage Limited
“Joint Global Coordinators”	CCB International Capital Limited, ICBC International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited and DBS Asia Capital Limited
“Joint Lead Managers”	CCB International Capital Limited, ICBC International Securities Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited, DBS Asia Capital Limited, ABCI Securities Company Limited, BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Qilu International Securities Limited and Essence International Securities (Hong Kong) Limited
“Latest Practicable Date”	June 3, 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Lead Global Coordinator”	CCB International Capital Limited
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about June 25, 2014, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Macau”	The Macau Special Administrative Region of the PRC



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## DEFINITIONS

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“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 the PRC 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”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“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)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“Offer Price”	the final offer price per H Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued, or purchased and sold, pursuant to the Global Offering, as described in “Structure of the Global Offering – Pricing and Allocation” of this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pearl River Delta”	the region in China comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen, Zhaoqin and Shantou, all located in Guangdong province

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## DEFINITIONS

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“Pingmei Shenma Energy”	China Pingmei Shenma Energy & Chemical Group Co., Ltd. (中國平煤神馬能源化工集團有限責任公司), a limited liability company incorporated in the PRC on December 3, 2008, which holds 4.089% of equity interest in our Company as of the Latest Practicable Date
“PRC GAAP”	generally accepted accounting principles of PRC
“prefecture-level city(ies)”	administrative division of the PRC, it ranks below a province and above a county in China’s administrative structure
“Price Determination Date”	the date, expected to be on or around June 17, 2014 (Hong Kong time), on which the Offer Price is determined, or such later time as our Company and the Joint Global Coordinators (on behalf of the Underwriters) may agree, but in any event not later than June 21, 2014
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“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
“Regulation S”	Regulation S under the U.S. Securities Act
“Risk Control Indicator Measures”	Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC (證券公司風險控制指標管理辦法)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“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)
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)

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## DEFINITIONS

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“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 PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“Securities Times”	Securities Times Newspaper (證券時報) of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each
“Shareholders(s)”	holder(s) of the Share(s)
“Shenhuo Group”	Henan Shenhuo Group Co., Ltd. (河南神火集團有限公司), a limited liability company incorporated in the PRC on September 30, 1994, and one of the promoters of our Company which holds 0.967% of equity interest in our Company as of the Latest Practicable Date
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SME”	small and medium enterprise
“SOE”	state-owned enterprise
“Sole Sponsor”	CCB International Capital Limited
“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
“State Council”	State Council of the PRC (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

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## DEFINITIONS

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“Supervisor(s)”	member(s) of our Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Track Record Period”	the three years ended December 31, 2011, 2012 and 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO</b> <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“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 the PRC in 1994 and a service provider of financial data, information and software, being an Independent Third Party of the Company
“Xuji Group”	Xuji Group Co., Ltd. (許繼集團有限公司), a limited liability company incorporated in the PRC on December 27, 1996, and one of the promoters of our Company which holds no equity interest in our Company as of the Latest Practicable Date
“Yangtze River Delta”	the region comprising Jiangsu and Zhejiang provinces and Shanghai

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## DEFINITIONS

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“ZDKY Venture Capital”	Zhongding Kaiyuan Venture Capital Management Co., Ltd. (中鼎開源創業投資管理有限公司), our wholly-owned subsidiary incorporated in the PRC with limited liability on February 8, 2012, under the name of Central China Dingsheng Venture Capital Management Co., Ltd. (中原鼎盛創業投資管理有限公司), renamed as Zhongding Kaiyuan Venture Capital Management Co., Ltd. on April 22, 2013
“ZZKY Venture Capital”	Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. (河南中證開元創業投資基金管理有限公司), an indirect subsidiary of our Company incorporated in the PRC with limited liability on December 28, 2012, in which we hold 60.0% equity interest through ZDKY Venture Capital as of the Latest Practicable Date
“ZZKY Venture Capital Fund”	Henan Zhongzheng Kaiyuan Venture Capital Fund (Limited Partnership) (河南中證開元創業投資基金(有限合夥)), a limited partnership fund established in the PRC on September 17, 2013
“%”	per cent

*In this prospectus, the terms “associate,” “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 prospectus 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 prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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

“A shares(s)”	the shares that are traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in Renminbi
“AUM”	the amount of assets under management
“average securities brokerage commission rate”	equals the commission income from our trading of stocks and funds on behalf of clients as divided by our brokerage trading volume for stocks and funds
“CAGR”	compound annual growth rate
“ChiNext Board”	the growth enterprise board launched by the Shenzhen Stock Exchange
“collective asset management scheme”	an asset management contract entered into with multiple clients by a securities firm 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 securities firm provides asset management services to the clients through designated accounts
“CSI 300 Index”	a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and Shenzhen Stock Exchanges, which is compiled by the China Securities Index Company, Ltd. (中證指數有限公司)
“dealer-quoted bond repurchase”	a cash management product in which a securities firm pledges the bonds it owns to the China Securities Depository and Clearing Corporation Limited as collateral to obtain short-term funds from customers who receive interest rates typically higher than those offered by bank deposits of similar maturity
“ETFs”	exchange-traded funds
“FOF”	fund of funds



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## GLOSSARY OF TECHNICAL TERMS

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“futures IB business”	the business activities in which securities firms, as commissioned by futures companies, introduce customers to futures companies to provide futures brokerage and other related services
“high-end customer(s)”	our retail customer(s) with total investment assets of at least RMB2.0 million
“high-net-worth customer(s)”	retail customer(s) whose accounts have at least RMB10.0 million of investment assets
“IPO”	initial public offering
“IT”	information technology
“M&A”	mergers and acquisitions
“margin refinancing”	a business in which securities firms can act as intermediaries to borrow funds from the China Securities Finance Co., Ltd. (中國證券金融股份有限公司) and other authorized financial institutions, and lend such funds to their customers
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (also known as the “New OTC Board”)
“Net Capital”	<p>the basic formula for the net capital is as follows:</p> $\text{Net Capital} = \text{net assets} - \text{risk adjusted financial assets} - \text{other risk adjusted assets and contingent liability} \text{ +/- other adjustments recognized or approved by the CSRC}$
“non-tradable shares”	shares of PRC-listed companies that are not allowed to be sold and transferred within a lockup period
“OTC”	over-the-counter
“perpetual bonds”	bonds with no maturity date
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“Regional OTC Board”	regional equity depository trading center which is intended to facilitate financing to SMEs

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## GLOSSARY OF TECHNICAL TERMS

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“RQFII”	RMB Qualified Foreign Institutional Investors (人民幣合格境外機構投資者)
“securities repurchase”	a transaction pursuant to the securities repurchase agreement in which a qualified investor sells its securities to a securities firm and agrees to repurchase such securities at a fixed price on a future date
“securities-backed lending”	a transaction in which a securities firm provides financing to qualified customers who pledge their securities as collateral
“securitization ratio”	total market capitalization of domestically-listed companies divided by nominal GDP
“SME Board”	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange
“SME private bonds”	corporate bonds issued by private small and medium enterprises in China through private placements
“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)
“stock index futures”	cash-settled standardized futures contracts with a particular stock market index as the underlying asset
“targeted asset management scheme(s)”	a targeted asset management contract entered into by a securities firm in China with a single client, pursuant to which the securities firm provides asset management services to the client through accounts under the client’s name

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## FORWARD-LOOKING STATEMENTS

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This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, 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:

- 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 business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- capital market developments;
- 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;
- general political and economic conditions, including those related to the PRC and other relevant jurisdictions in which we have or intend to have business operations;
- various business opportunities that we may pursue;
- macro-economic measures adopted by the PRC government to manage economic growth; and
- changes in the global economic conditions and material volatility in the global financial markets.

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## FORWARD-LOOKING STATEMENTS

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Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under the section headed “Risk Factors” and elsewhere in this prospectus. 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 prospectus. 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 prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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## RISK FACTORS

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*You should carefully consider all of the information contained in this prospectus, 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 the PRC and substantially all of our operations are conducted in the PRC, which is governed by a legal and regulatory regime which in some respects may differ significantly from that of other jurisdictions. For more information concerning the laws and regulatory systems of the PRC and certain related matters discussed below, see “Regulatory Environment,” “Appendix IV – Summary of Principal Legal and Regulatory Provisions” and “Appendix V – Summary of Articles of Association.”*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**Our business is highly dependent on the general economic and market conditions in China. Our results of operations could be materially and adversely affected by downturns in China’s capital markets, which, in turn, may be affected by volatility and downturns in the global capital markets.**

Our business is highly dependent on economic and market conditions in China, as substantially all of our revenue is derived from the securities markets in China. For example, our business is subject to China’s macro-economic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates. In 2011, 2012 and 2013, China’s securities industry and our financial condition and results of operations were affected by the monetary policies and inflation in the PRC and the volatility in the PRC securities markets. For example, the daily average trading volume in the PRC A share market decreased by 25.0% from RMB171.4 billion in 2011 to RMB128.5 billion in 2012, and our commission and fee income on securities brokerage decreased by 33.7% from RMB704.6 million in 2011 to RMB466.9 million in 2012. Unfavorable financial or economic conditions globally, such as the financial instability in the U.S. and the European debt crisis, have also materially affected market conditions in China, and hence our operations and financial conditions.

Our business is also directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in the trading volume and investor confidence. As China’s capital markets are still at an early stage of development, market conditions may change suddenly and dramatically, which could materially and adversely affect our business, financial condition and results of operations.

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## RISK FACTORS

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Adverse financial or economic conditions, and securities market volatility, could discourage investor confidence and reduce securities trading and corporate finance activities, which may adversely affect the commission and fee income from our brokerage business and the underwriting and sponsors fees from our investment banking business. Under unfavorable financial or economic conditions, the value of our asset management portfolio may be adversely affected and, therefore, reduce the management fees we earn from our asset management business, and we may be faced with an influx of client redemptions in our asset management portfolio, which, in turn, could also adversely affect the revenue from our asset management business. In addition, unfavorable financial or economic conditions and market volatility could also increase the risk of default in the margin financing and securities lending we provide to our clients, and our proprietary trading business may also be adversely affected by the reduction in the value of our trading and investment positions.

**The PRC securities industry is highly competitive, and our business and prospects may be materially and adversely affected if we are unable to compete effectively.**

The PRC securities industry is highly competitive, and we face intense competition in most of our business lines. We compete with over 110 PRC securities firms as well as other financial institutions, such as commercial banks and insurance companies, in various specific business lines in the PRC. Commercial banks, insurance companies and other financial institutions are expanding their services into the traditional businesses of securities firms through continuous product and service innovation and have been competing with securities firms in certain areas. Commercial banks, in particular, present a greater challenge to securities firms in terms of debt financing, financial advisory and distribution of wealth management products, by leveraging their branch network, client base and capital base.

Meanwhile, the gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC's financial industry may cause new competitors to enter into our industry, or allow our current competitors to expand the scope of their business into new business lines. In early 2014, a PRC securities firm launched online discount brokerage, offering investors lower commission rates than conventional brokers. We expect more online discount brokerage firms to emerge in China and compete with traditional securities firms, including us. The deregulation of the PRC securities industry could also induce foreign financial institutions to enter into the PRC market, which are currently subject to PRC regulatory limitations and restrictions on their business activities.

In addition, other innovative products and services may emerge in the PRC securities market as the PRC securities industry is gradually evolving, and we cannot guarantee that we will be able to provide such innovative products and services promptly.

Some of our competitors may have certain competitive advantages over us, such as wider geographic coverage, broader range of products and services offerings, greater financial resources, stronger brand recognition and more advanced IT systems. If we fail to compete effectively against our competitors, our business, financial condition, results of operations and prospects may be materially and adversely affected.



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## RISK FACTORS

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**We generate a significant portion of our revenue from our securities brokerage business, and we cannot assure you that our brokerage commission and fee income can be sustained.**

In 2011, 2012 and 2013, segment revenue and other income from our securities brokerage business amounted to RMB706.1 million, RMB494.1 million and RMB678.9 million, respectively, representing approximately 73.1%, 40.5% and 47.3% of our total revenue and other income, respectively.

Revenue from our brokerage business consists primarily of commission and fee income that we charge our clients for their trading of securities. Trading volume is subject to factors, including, among others, general economic conditions, macro-economic and monetary policies, market conditions, fluctuations in interest rates and investor behavior, all of which are beyond our control. The PRC securities markets are newly emerging markets characterized by short-term investing behavior among investors, which has resulted in a higher level of trading activities by our clients. However, as the capital markets in China mature and our clients become more sophisticated, they may reduce their trading activities in the future, which could materially and adversely affect the commission and fee income from our brokerage business.

In addition, market competition is another key factor affecting our brokerage business. We monitor our product pricing in relation to competitors and intend to offer more value-added wealth management services to enhance our competitiveness. In 2011, 2012 and 2013, our average securities brokerage commission rate was 0.124%, 0.119% and 0.115%, respectively. We may face further competition and price pressure if some of our competitors try to increase their market shares by offering lower prices, or if more investors prefer the Internet or other alternative transaction methods over traditional transaction methods to execute transactions electronically. In early 2014, a PRC securities firm launched online discount brokerage, offering investors lower commission rates than other conventional brokers. With the gradual deregulations of the PRC securities industry, we believe that the PRC securities industry will become increasingly competitive, and we will be under increasing pricing pressure to stay competitive.

While we continue to diversify and grow our other business lines, our brokerage business is expected to remain our primary source of revenue. Therefore, any decline or slowdown in our brokerage business could materially and adversely affect our total revenue and other income, and there is no guarantee that our brokerage commission and fee income can be sustained at current levels.

In addition to our own wealth management products, we also distribute, through our branch network, financial products developed by third-party financial institutions, such as fund houses, trust companies and commercial banks in China. If these third-party financial institutions default on their financial products which we distributed to our clients and fail to pay interest or dividend or to repay principal on time or at all, we may be subject to client complaints and litigation which could have an adverse effect on our reputation and our business.

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## RISK FACTORS

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**Our proprietary trading business is subject to market volatility and our investment decisions, and has experienced substantial fluctuations during the Track Record Period.**

We trade equity and fixed-income securities for our own account. Our equity and fixed-income securities are subject to market volatility and, therefore, the results of our securities trading activities generally correlate with the performance of the PRC securities markets. We also engage in derivative transactions involving stock index futures to reduce the impact of price volatility on our equity investment portfolio. However, the PRC derivative market currently does not provide sufficient means for us to hedge against volatile trading markets, which may make it difficult for us to reduce our exposure to fluctuations in price volatility on our equity investment portfolio, and the derivatives we use may not be as effective as we expect. As a result of the significant volatility in the PRC securities markets during the Track Record Period, our investment returns experienced substantial fluctuations. In 2011, while the CSI 300 Index decreased by 25.0%, we had net investment losses of RMB62.2 million on our proprietary trading activities. In 2012, we had net investment gains of RMB321.4 million, which decreased by 50.7% to RMB158.6 million in 2013.

The performance of our proprietary trading business relies on our investment decisions and judgments based on our assessment of existing and future market conditions. We closely monitor the market value of our investment portfolio and actively refine the structure of our portfolio based on market conditions and internal risk management guidelines. However, our investment decisions are a matter of judgment, which involves management discretion and assumptions. If our decision-making process fails to effectively minimize losses while capturing gains, or our forecasts do not conform to actual changes in market conditions, our proprietary trading business may not achieve the investment returns we anticipate or may even suffer material losses, any of which could materially and adversely affect our business, financial condition and results of operations.

In addition, the values of certain classes of our assets, such as our available-for-sale financial assets, are marked to market. A decline in the value of our available-for-sale financial assets can result in the recognition of impairment losses if management determines that such decline in value is not temporary. This evaluation is a matter of judgment, which includes the assessment of several factors. See “Financial Information – Significant Accounting Policies and Estimates.” If we recognize impairment losses, our results of operations will be adversely affected.

**Our investment banking business is subject to various risks in the underwriting and sponsorship of securities, and we cannot assure you that our underwriting and sponsors fees can be sustained.**

In 2011, 2012 and 2013, segment revenue and other income from our investment banking business amounted to RMB74.5 million, RMB172.8 million and RMB164.9 million, respectively, representing approximately 7.7%, 14.2% and 11.5% of our total revenue and other income, respectively.

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## RISK FACTORS

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We are exposed to transaction-specific execution risks for each project that we sponsor or underwrite. Offerings of securities in the PRC, especially IPOs, are subject to merit-based reviews and approvals conducted by various regulatory authorities. The result and timing of these reviews and approvals are beyond our control and may cause substantial delays to, or the termination of, securities offerings underwritten and sponsored by us. Since October 2012, the CSRC suspended its review of all A Share offering applications in China, which suspension was lifted in January 2014. As a result, during 2012 and 2013, we did not complete any IPO underwriting and sponsorship transactions. We cannot assure you that such project-by-project approvals will be granted in a timely manner or at all in the future. Any failure to obtain regulatory approvals for the securities offerings we sponsor could harm our reputation, erode client confidence and reduce our underwriting and sponsors fee income.

The performance of our investment banking business also depends 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, or result in less financing and mergers and acquisitions activities, which may in turn materially and adversely affect our revenue from the investment banking business.

We compete for investment banking business with our competitors, such as other domestic securities firms and domestic commercial banks, mainly in terms of brand recognition, pricing, marketing and services. Severe competition may result in less underwriting and sponsors fees or a lower market share.

Our investment banking business is also subject to certain risks that are related to our retaining highly skilled employees. If we fail to optimize the quality and size of our investment banking team, or fail to retain our team members and thereby experience a high staff turnover, our investment banking business could be adversely affected. Furthermore, new products and services in the investment banking business may emerge in line with the development of the PRC securities market. We may fail to maintain our current market share due to difficulties or challenges we may face when we engage in offering new products or services, which could have a material adverse effect on our investment banking business.

In addition, when we act as a sponsor, we are required to fulfill certain due diligence and disclosure requirements in connection with each project we sponsor. Failure to satisfy these requirements could subject us to fines and other administrative or regulatory penalties including suspension of our licenses, which could materially and adversely affect our business, financial condition and results of operations, as well as our reputation.

**Our asset management fees could decline if the investments we manage perform poorly, or our clients withdraw assets we manage or if we lose clients.**

We receive asset management fees based on the asset size of each asset management plan under our management. In addition, we may earn pre-agreed performance fees for certain collective asset management plans and targeted asset management plans. Investment performance affects our AUM and is one of the most important factors in retaining our clients

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and competing for new asset management business. Limited investment options and hedging strategies in the PRC, as well as market volatility, could negatively affect our ability to provide stable returns for our clients, cause us to lose clients and require us to make provisions for the decrease in the value of our investments. Poor investment performance could adversely affect our revenue and growth because:

- existing clients might withdraw funds from our asset management business in favor of better performing products provided by our competitors, which would result in lower management fees for us;
- 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, our asset management fees or market share may decrease due to increased competition from insurance companies, fund houses and other competitors. We are still in the process of developing and growing our asset management business. If we fail to increase our AUM, we may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements. This lack of scale could adversely affect our ability to compete and our results of operations and financial condition.

Furthermore, under one of our collective asset management schemes, Yanhuang No. 1, we contributed our own funds to the scheme and agreed with our clients who purchased at the inception and held their units to maturity that if the unit net asset value is lower than the face value at maturity, we are responsible for client losses up to the amount of our own funds under this scheme. As of April 30, 2014, the fair value of our fund contribution in Yanhuang No. 1 collective asset management scheme was RMB47.3 million and we have set aside RMB25.3 million and RMB22.1 million, respectively, of provisions for potential liabilities under this scheme in 2013 and the four months ended April 30, 2014. If we continue to develop and offer more asset management schemes with similar credit enhancement, we face the risk of losing all or part of our fund contributions, which could materially and adversely affect the profitability of our asset management business, our results of operations and financial condition.

### **Our direct investment business is subject to our investment decisions and market volatility.**

Our direct investment business generally involves equity investments or debt investments in private companies. The risks we face are as follows:

- Our portfolio companies may take longer than expected to mature to a stage suitable for IPOs. As such, our investment period would be longer than we anticipate which could reduce our returns on investment.
- Our ability to exit an equity investment is also subject to market conditions in the PRC. Owing to volatile equity capital markets, we may be forced to sell our investments at undesirable prices or defer sales for a considerable period of time, or we may not be able to sell our investments at all.

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- If the target company does not reach the profitability we anticipate, our ability to exit from, or receive dividends on, such investments could be severely hampered; and the target company could suffer from business difficulties, have poor financial performance or even become insolvent before we exit.
- If the target company in which we made a debt investment defaults on the payment of interest or repayment of principal due to poor financial performance, bankruptcy or otherwise, our investment may suffer significant losses.

Our business, financial condition and results of operations could be materially and adversely affected by any of the events mentioned above.

### **We may suffer significant losses from our credit exposures.**

Some of our businesses are subject to the risk that a client or counterparty may fail to perform its contractual obligations or that the value of collaterals held to secure the obligations might be inadequate. Our credit exposure mainly results from our newly-launched margin financing and securities lending, securities-backed lending and securities repurchase businesses as well as futures brokerage. Any material non-payment or non-performance by a client or counterparty could adversely affect our financial position, results of operations and cash flows.

In our margin financing and securities lending business, we may impose mandatory liquidation on clients who are unable to settle their obligations as scheduled, or whose collateral ratios are lower than the ratios set for liquidation as a result of fluctuations in prices of the listed securities while failing to replenish the collateral in full within the required period. In our futures brokerage business, we require our clients to maintain a certain account balance for their futures 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 the clients' positions. Such mandatory liquidation mechanism may trigger disputes between clients and us, which may subject us to significant expenses or litigation risks. In addition, we also conduct trades with counterparties to provide short-term financing to them through securities-backed lending, securities repurchase and bond resale transactions under which we will be subject to the credit risk and non-performance of the counterparties.

We may have exposure to credit risk associated with our financial assets. These financial assets may also be subject to price fluctuations as 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 limit such occurrences, these policies and procedures may not be fully effective. See "– Our business and prospects may be materially and adversely affected if we fail to maintain our risk management and internal control systems or these systems are proved to be ineffective or inadequate." In addition, we may not have sufficient access to resources and trading counterparties to effectively implement our trading and investment risk mitigation strategies and techniques. If our credit exposure becomes overly concentrated in a limited set of assets, asset classes, or a limited number of third parties, or if we fail to effectively

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manage our credit exposure through our risk management policies and procedures, the volatility of any negative impact of adverse credit exposures could be magnified, and as a result, we may experience significant financial losses that could materially and adversely affect our business, financial condition and results of operations.

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

Liquidity is essential to our business, particularly the business that involves investment and capital-based intermediary services, such as margin financing and securities lending and proprietary trading activities with substantial cash requirements. Our liquidity may be impaired by an inability to access the short- and long-term debt and equity markets, an inability to sell assets at market prices, or at all, or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our counterparties or us, or even by the perception among market participants that we, or other market participants, are experiencing greater liquidity risk. Furthermore, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity stress or other market crisis. If our available funding is limited, or we are forced to fund our operations at a higher cost, then these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability. In addition, 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. According to the CSRC's requirements, the ratio between our Net Capital and net assets cannot fall below 40.0%, the ratio between our Net Capital and liabilities cannot fall below 8.0% and the ratio between our net assets and liabilities cannot fall below 20.0%. If we fail to meet regulatory capital requirements in the PRC, regulatory authorities may 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.

Factors that may adversely affect our liquidity position include a significant increase in our margin financing business, failure to liquidate financial asset investments at reasonable prices, early redemption of our bond repurchase transactions by our clients, our inability to timely refinance our short-term notes, a significant amount of underwriting on a firm commitment basis, over-concentration of holdings in certain assets or asset classes, mismatch of durations of assets and liabilities, increased regulatory capital requirements or other regulatory changes, or a loss of market or client confidence. 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 adverse credit and capital market conditions, potential sources of external financing could be limited and our borrowing costs could increase. In addition, external financing may not be available on acceptable terms, or at all, due to unfavorable market conditions and disruptions in the credit and capital markets.



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### **We had negative operation cash flows in 2011 and 2013 and may continue to experience the same in the near term after the Global Offering.**

Our capital-based intermediary businesses, primarily our margin financing and securities lending business, and our proprietary trading business are capital intensive and involve substantial operating cash outflows. In 2011, we reported RMB1,893.4 million of net increase in our financial assets held for trading, which reflected our investment strategies to increase long positions in our trading activities. Although we had profit before tax of RMB137.0 million in 2011, we recorded negative operating cash flows of RMB1,117.4 million during the same year. Following the commencement of our margin financing and securities lending business in July 2012, we actively expanded the scale of our margin loans to brokerage customers in 2013 and recorded a net increase of RMB2,048.6 million in our margin accounts receivable in 2013. As a result, we reported negative operating cash flows of RMB971.8 million in 2013, although we had profit before tax of RMB338.2 million during the same year.

We believe that capital-based intermediary businesses will contribute considerably to our revenue and profit growth, and as a result, we plan to use most of our net proceeds from the Global Offering for developing these businesses. See “Future Plans and Use of Proceeds.” We expect to use our additional capital to make margin loans and securities-backed lending to our customers, which will be treated as cash outflows in our operating activities, while the corresponding inflows of capital will be treated as cash from financing activities. In addition, we issued RMB1.5 billion of corporate bonds in China on April 25, 2014, to mainly finance our capital-based intermediary businesses, which will also be treated as cash inflow from financing activities. See “Financial Information – Liquidity and Capital Resources – Indebtedness.” As we intend to actively expand our capital-based intermediary businesses, we may continue to report negative operating cash flows in 2014 and the near future after the Global Offering. Negative operating cash flows may reduce our financial flexibility and make it difficult for potential investors to evaluate our prospects based on our historical results.

### **We face the risks of concentration of customers and business in Henan.**

Our business has been focused on Henan. In 2011, 2012 and 2013, 92.0%, 91.3% and 89.3%, respectively, of the revenue and other income from our securities brokerage business originated in Henan. In addition, substantially all of the customers in each of our principal business lines are residents and institutions based in Henan. For example, approximately 95% of our securities brokerage customers opened their accounts at our securities branches in Henan.

We have strategically expanded our business across major cities in China, however, subject to our available capital, regulatory requirements and otherwise, we may face difficulties in our ability to further expand our branches and operations outside Henan. We expect that our future business will continue to concentrate in Henan. A significant economic downturn or material adverse changes in the economic environment or any severe natural disasters or catastrophic events in Henan could materially and adversely affect our business, financial condition and results of operations.



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**If we cannot successfully maintain and expand our client base and branch network, our brokerage business and its revenue could be materially and adversely affected.**

The brokerage business is highly competitive and we have to maintain our client base and attract new clients from our competitors. The number of our securities branches increased from 52 as of December 31, 2011 to 62 as of the Latest Practicable Date, 49 of which are located in Henan. According to the Securities and Futures Association of Henan Province, we have the largest number of securities branches in Henan among all PRC securities firms. As part of our business strategy, we intend to increase the number of our securities branches across China to 77 by the end of 2014.

We have invested resources into expanding our branch network and expect to continue to do so to grow our client base. However, there is no assurance that we will be successful in expanding our branch network. If we are unable to address the needs of our clients by maintaining high-quality client service, continuing product innovation, providing value-added services, or if we otherwise fail to meet our clients' demands or expectations, we may lose our existing clients to our competitors or fail to attract new clients. For example, we intend to upgrade our remaining traditional securities branches to comprehensive securities and financial services centers for providing value-added services to our customers and attracting high-net-worth individuals. We cannot assure you that this strategy will be successful. Should we fail to cope with any of the foregoing risks, our business, financial condition and results of operations may be materially and adversely affected.

**Our business may be subject to risks associated with expansion outside Henan and overseas.**

We have expanded, and intend to further expand, our operations beyond Henan. Such expansion may increasingly subject us to risks, such as:

- failure to attract a sufficient number of new clients due to our limited presence and brand recognition;
- failure to establish a presence in saturated markets where our competitors have a historical presence and large market shares;
- failure to anticipate competitive conditions in new markets that are different from those in our existing markets, such as market saturation;
- differences in cultural, commercial and operating environments and corporate governance;
- difficulties in recruiting and retaining qualified personnel;
- economic instability and recessions in the new markets;
- potential adverse tax consequences; and

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- difficulties in effectively enforcing contractual or legal rights.

In addition, we intend to establish a business presence in overseas markets, such as Hong Kong, where we have limited or no operating experience. We are also subject to risks inherent in conducting business internationally, such as differences in accounting treatment in different jurisdictions and foreign exchange losses.

**We face increasing risks as new business initiatives lead us to offer new products and services, transact with a broader array of customers and conduct business through new marketing platforms.**

As we continually expand our business and adjust our business strategies in the changing market, our new business initiatives often lead us to offer new products and services. We have recently expanded our business to include, among others, margin financing and securities lending, securities-backed lending, securities repurchase, dealer-quoted bond repurchase and direct investment. We will continue to expand our product and service offerings, as permitted by the PRC regulatory authorities. The new businesses may have different operational parameters and risk profiles from our more established existing businesses. For example, although we have established a margin-call risk control mechanism through which we monitor the value of our clients' collateral on a real-time basis, we may be subject to substantial risks if borrowers default on loan repayments or if the value of the collateral for the loans is insufficient to cover the securities financing due to significant market volatility. The new businesses may be exposed to further potentially challenging risks. For example:

- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and clients, or may have legal disputes with clients due to deficiencies in our new products;
- we may be subject to greater regulatory scrutiny and increased credit risks, market risks and operational risks;
- we may suffer from reputational concerns arising from dealing with less sophisticated counterparties and clients;
- we may not be able to provide clients with adequate levels of service for our new products and services;
- we may not be able to hire additional competent qualified personnel to design and manage 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 not be able to make accurate judgment on market conditions, including potential losses, of our new business, due to insufficient historical data;

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- we may not be able to obtain sufficient financing from internal and external sources to support our business expansion;
- we may not be able to completely identify or adequately evaluate the risks of our new business, or to carry out robust risk management in response to the risks; and
- we may not be able to enhance our risk management capabilities and IT systems on a timely basis to identify and mitigate all the risks associated with these new products and services, new clients and new markets.

Should any of the risks disclosed above occur, our business, financial condition and results of operations, as well as our reputation and prospects may be materially and adversely affected.

In addition, as part of our business strategy, we intend to further develop our recently launched electronic securities platform to expand our customer reach beyond the physical boundaries of our securities branches and source more customers online to lower our operating costs. As other PRC securities firms are also actively developing online securities business, our new platform may not be able to remain competitive. Our competitors may have more diverse product offering, lower pricing, greater brand recognition and resources and better online experience and services capabilities. The development of this platform may subject us to increased IT and data privacy risks. The maintenance and upgrade of our electronic securities platform and our efforts to market our products and services via this platform require substantial capital and we may be unable to achieve the expanded customer base and cost-saving as we anticipated.

### **Our business is highly regulated in China and non-compliance with PRC laws and regulations could cause us to incur penalties.**

As a participant in the securities and financial services industries, we are subject to extensive PRC regulatory requirements, which are designed to ensure the integrity of the financial markets, the soundness of securities firms and other financial institutions and the protection of investors. These regulations often serve to limit our activities by, among other things, imposing capital requirements, limiting the types of products and services we may offer and restricting the types of securities in which we may invest. See “Regulatory Environment” for information concerning the regulatory environment of the PRC.

The PRC regulatory authorities conduct periodic inspections, examinations and inquiries in respect of our compliance with such requirements. For example, the CSRC assigns a regulatory rating to each securities firm according to its risk management capabilities, competitiveness and continuous compliance with regulatory requirements. Since 2011, we have received a “BBB” regulatory rating from the CSRC for three consecutive years.

Failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may limit our ability to conduct pilot programs and launch new businesses, and harm our reputation, and consequently materially and adversely affect our business, financial condition and results of operations.

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Despite our efforts to comply with applicable regulations, there are a number of associated risks, particularly in areas where applicable regulations may be unclear or where regulators subsequently revise their previous guidance. On occasions, we have failed to meet certain requirements and guidelines set by the PRC regulatory authorities. The periodic and random inspections conducted on us by the CSRC and its local counterparts revealed certain deficiencies with respect to our business operations, risk management and internal controls. See “Business – Legal and Regulatory.” Material non-compliance incidents may subject us to penalties or restraints on our business, and may materially and adversely affect our business, results of operations and financial condition.

### **Our equity financing option is limited due to CSRC requirements on foreign shareholding in a listed PRC securities firm.**

According to Article 25 of the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) prescribed by the CSRC, the aggregate of direct holdings and/or indirect control in the equity interest of a listed PRC-incorporated securities firm by all foreign investors shall not exceed 25% of its total issued share capital. In addition, Rule 8.08(1) of the Hong Kong Listing Rules requires that at least 25% of our total issued share capital must at all times be held by the public after the Global Offering. In order to comply with both the CSRC requirement on foreign shareholding and the public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules, the aggregate number of Offer Shares we offer and the H Shares to be held by the NSSF will represent 25.0% of our issued share capital immediately after the Global Offering and we will not grant any over-allotment option to the Underwriters. In addition, after the Global Offering, we are unable to issue additional H Shares or other equity or equity-linked securities offshore unless: (i) the relevant regulatory requirements relax or we are able to obtain a waiver from the regulatory authorities for the strict compliance with the foreign shareholding requirement or the relevant Hong Kong Listing Rules; and/or (ii) we increase our total share capital after the Global Offering through an A share offering or otherwise.

### **New legislation or changes in the PRC regulatory requirements may affect our business operations and prospects.**

The PRC securities industry is highly regulated and PRC securities firms are subject to regulations on various perspectives, including business licenses, scope of products and services and Net Capital. As the PRC securities industry is still evolving, relevant rules and regulations could be changed, from time to time, based on the developments of the securities markets. For example, in recent years, the CSRC has gradually deregulated the securities industry and encouraged business innovation and product diversification, including a gradual launch of pilot programs to develop various new businesses, such as direct investment, stock index futures, margin financing and securities lending, securities-backed lending and dealer-quoted bond repurchase. In addition, the CSRC has implemented policies to support securities firms’ leveraged operations. The CSRC promulgated in April 2012, and further amended in November 2012, the Decisions on Modification of the Regulation in Relation to the Calculation Basis for the Risk Capital Reserve of Securities Companies (關於修改<關於證券公司風險資本準備計算標準的規定>的決定), which lowered the ratios of risk capital reserves required for securities firms’ proprietary trading, asset management, brokerage and other businesses, in order to enable securities firms to expand their business scales and encourage industry innovations and developments.

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There are uncertainties regarding the enforcement of new rules and the existing rules and regulations in relation to new businesses. Furthermore, while the deregulation of the securities industry may intensify competition in the securities industry and, therefore, expose us to challenges in maintaining and increasing our market shares and rankings in various business lines, strengthening of securities regulations could result in limitations on the business lines we may conduct, modifications to our business practices or additional costs. There is no guarantee that we will be able to fully comply with the new rules and regulations, interpretation of which may remain uncertain, or compete with new market players effectively, or efficiently adjust our business according to the new environment. Any such failure could materially and adversely affect our business, financial condition and results of operations.

**Our operations may be materially and adversely affected if we fail to obtain or maintain necessary approvals for conducting a particular business or offering specific products.**

We operate in a highly regulated financial industry where many aspects of our business depend upon obtaining and maintaining the necessary approvals, licenses or permits from government authorities, including the CSRC. See “Regulatory Environment.” We are required to comply with the relevant regulatory requirements prescribed by regulatory authorities, such as Net Capital, risk management, corporate governance, professional staff, corporate structure and compliance operations. Our compliance obligations will be subject to scrutiny in particular when we apply for approvals, licenses or permits for conducting new businesses or offering new products. If we fail to continuously comply with the regulatory requirements, we may encounter the risks of being disqualified for our existing business or being rejected for renewal of our qualifications upon expiry by the regulatory authorities. In addition, in respect of any new business or new products that we contemplate, we may not be able to obtain the relevant approvals for developing such new business, if we fail to fully comply with the relevant regulations and regulatory requirements. As a result, we may fail to develop our new business as planned or recover our initial investments, or we may fall behind our competitors in such businesses or lose our existing customers.

**Our historical financial results may not be indicative of our future performance.**

Our business achieved rapid growth during the Track Record Period. In addition, some of our emerging businesses and services, such as margin financing and securities lending, securities-backed lending, securities repurchase and direct investment, commenced in or after 2012 and, therefore, have limited operating histories. Our revenue and other income increased from RMB966.3 million in 2011 to RMB1,218.5 million in 2012 and further increased to RMB1,434.6 million in 2013, while our profit increased from RMB92.8 million in 2011 to RMB183.2 million in 2012, and further increased to RMB238.4 million in 2013. However, our historical high rate of growth and the limited history of our new businesses make it difficult for potential investors to evaluate our prospects. We may not be able to sustain our rapid growth or may not even be able to grow our business at all.

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**Our business and prospects may be materially and adversely affected if we fail to maintain our risk management and internal control systems or these systems are proved to be ineffective or inadequate.**

We have established an internal risk management framework and procedures to manage our risk exposure, primarily including market risk, credit risk, operational risk, liquidity risk, compliance risk and legal risk. Our risk management policies, procedures and internal controls may not be adequate or effective in mitigating our risk exposures or protecting us against unidentified or unanticipated risks. In particular, some methods of managing risks are based upon historical market behavior and our experience in the securities industry. These methods may fail to predict future risk exposure, 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 on which we rely for our risk management methods may become quickly outdated as markets and regulations continue to evolve. Potential deficiencies in our risk management and internal control systems and procedures may materially and adversely affect our ability to record, process, summarize and report financial and other data in an accurate and timely manner, as well as materially and adversely impact our ability to identify any reporting errors and non-compliance with rules and regulations.

Management of operational, compliance and legal risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and business activities, as well as appropriate and consistent application of internal control systems. Our risk management and internal control policies and procedures may not be adequate or effective in mitigating risks of unanticipated or unforeseen nature, and our business, financial condition and results of operations could be materially and adversely affected by the corresponding increase in our risk exposure and actual losses as a result of failures in our risk management policies, procedures and internal controls. The risk mitigation strategies and techniques that we adopt may not be fully effective and sufficiently encompassing and may leave us exposed to unidentified and unanticipated risks. In addition, if we fail to promptly adjust and improve our risk management and internal control systems and procedures in response to the development of our branch outlets and the expansion of our business and products, our business, financial condition and results of operations could be materially and adversely affected.

Certain areas within our risk management and internal control systems may require constant monitoring, maintenance and continual improvements by our senior management and staff. Due to the size of our operations and our extensive branch network, we cannot assure you that such implementation will not involve human errors or mistakes, which may have a material and adverse effect on our business, financial condition and results of operations.

**We are subject to the risks arising from any failures of, or inadequacies in, our IT systems.**

Our business is highly dependent on the stable and effective operations of our IT systems and is also affected by the operations of the IT systems of telecommunication carriers, exchanges, clearing agents, depositaries and other financial intermediaries. Our securities-matters processing systems are highly automated. The proper functioning of our securities



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trading, financial control, risk management, accounting, client service and other data processing systems, together with the communication networks between our headquarters, subsidiaries and branches and our communication networks with exchanges, clearing agents and depositaries, are critical to our business and our ability to compete effectively. We have established a central computer room and same-town disaster back-up center in Zhengzhou to ensure real time back-up of our core transaction system. However, we cannot assure you that our operations will not be materially disrupted if any of our systems fails. 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 service 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.

In addition, the securities industry is characterized by rapidly changing technology. Online securities trading platforms and other new channels, such as mobile devices, are becoming increasingly popular among our clients due to their convenience and user-friendliness. If our information systems are unable to upgrade in response to our business development and expansion, our capabilities of business management, client service, risk management and internal control may be adversely affected. If the processing capacity of our trading system is not able to deal with trading demands when the securities market experiences volatility, we may be subject to client complaints, litigations or adverse effects on our reputation. If we upgrade our information systems, or launch new information systems for our new businesses or new products, we may encounter a slowdown, breakdown or collapse of the systems due to their defects. Failure to upgrade the original systems or the operational errors of technicians may also result in client dissatisfaction.

The operations of our IT systems are exposed to disruptions from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorized access, data loss or leakage, improper access to operation authority and other similar events. Disruptions to, or instability of, our technology or external technology that is used by our clients for our online products and services could harm our business and our reputation.

We utilize IT products and services from a variety of third-party developers, contractors and vendors. If we fail to effectively manage our external IT developers, contractors and vendors and their products and services, we may experience system failures, incompatible software or platforms, as well as synchronization, data transfer and data management issues across our various IT systems and platforms.

### **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 we use to facilitate our securities transactions. Any operational failure or termination of the particular financial intermediaries that we use could materially and adversely affect our ability to execute transactions, serve our clients and manage our exposure to various risks. Any disputes or difficulties in cooperating with these financial intermediaries could materially and adversely affect our business operations.



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In addition, as our interconnectivity with our clients grows, our business relies heavily on our clients' use of their own systems, such as personal computers, mobile devices and the Internet, and we will increasingly face the risk of operational failure in connection with our clients' systems.

**Our business is subject to concentration risks due to significant holdings of financial assets or significant commitments of capital.**

In the course of our business, we often commit substantial amounts of capital to certain types of businesses or asset classes, including our margin financing and securities lending, proprietary trading, direct investment and investment banking businesses. This commitment of capital exposes us to concentration risks, including market risk, in the case of over-concentration of holdings in certain assets or asset classes as part of our proprietary trading activities, and credit risk, in the case of our margin financing and securities lending business. Any significant decline in the value of such assets may materially and adversely affect our business, financial condition and results of operations.

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

Our exposure to interest rate risk is primarily associated with our interest income, interest expenses and fixed-income securities. We earn interest income from deposits with banks and financial settlement institutions, margin financing and securities lending, as well as financial assets held under resale agreements. Interest income from these sources is linked to the prevailing market interest rates. If market interest rates decrease, our interest income would generally decrease. We also make interest payments on deposits that we hold for our brokerage clients as security deposit, our short-term notes and bond repurchase transactions. During periods of rising interest rates, our interest expenses and financing costs would generally increase. In addition, we hold fixed-income securities. During periods of rising interest rates, market prices and our investment returns on fixed-income securities will generally decrease. We currently do not have measures to hedge the interest rate exposure. Significant interest rate fluctuations could affect our interest income or returns on fixed-income investments, or increase our interest expenses, any of which could materially and adversely affect our financial condition and results of operations.

**We depend on our senior management and professional staff to conduct our business, and the loss of members of our senior management team or professional staff may disrupt our business.**

Our ability to sustain growth and meet future business demands is dependent upon the continued services of our senior management. We also rely on the continued service and performance of our employees, as most aspects of our business depend on the quality of our professional staff. These key personnel include members of our core management, licensed sponsor representatives, experienced investment managers and industry analysts, IT specialists, sales staff and other key personnel. Owing to the expansion of our business and our increasing

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range of products and services, we need talented employees and have devoted resources to recruitment and professional training. However, we may face increasing competition in recruiting and retaining qualified personnel, including our senior management, as our competitors are competing for the same pool of qualified personnel and our compensation packages may not be as competitive as those of our competitors.

In addition, some of our employees are not subject to non-competition agreements; they may resign at any time to join our competitors and may seek to divert customer relationships that they have developed while working for us. We cannot guarantee that we will be able to recruit staff in sufficient numbers or with sufficient experience, or that competition in recruitment will not lead to increases in our employment costs. If we fail to recruit or retain a sufficient number of qualified staff, our business, financial condition and results of operations may be materially and adversely affected.

In addition, owing to the rapid development of the PRC securities industry, our current professionals' knowledge and skills may be insufficient to meet our needs for product and service innovations, which may also materially and adversely affect the development of our business.

**We may not be able to fully 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 laws, anti-terrorism laws and other regulations. 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."

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, in light of the complexity of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely eliminate the possibility of us being utilized by other parties to engage in money laundering and other illegal or improper activities. To the extent that we fail to fully comply with such laws and regulations, the relevant government authorities may impose fines and other penalties on us. In addition, our business and reputation could deteriorate if customers manipulate their transactions with us for money laundering or other illegal or improper purposes.

**Employee misconduct could harm our reputation and business and is difficult to detect and deter.**

Misconduct committed by our employees, representatives, agents, clients or other third parties could result in violation of laws by us, regulatory sanctions against us and material reputational or financial harm to us, or could bind us to unauthorized or excessive trading to the detriment of our clients or us. Such misconduct could include hiding unauthorized or

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unsuccessful activities resulting in unknown and unmanaged risks or losses, misusing or disclosing confidential information, recommending transactions that are not proper, engaging in fraudulent or otherwise improper activity including illegal fundraising, improper tunnelling or insider trading, or otherwise not complying with laws or our control procedures. In particular, alleged or actual employee misconduct could result in investigations or prosecutions of the employees engaged in the subject activities or in litigation or regulatory sanctions against us, which could cause reputational harm, litigation costs and management distraction for us regardless of whether we are alleged to have any responsibility. For example, in April 2012, the CSRC's local branch in Shanghai issued a regulatory letter to us, requesting us to investigate whether an employee has breached the regulatory restrictions on providing stock advice at physical meetings and on the Internet. See "Business – Legal and Regulatory – Regulatory Non-compliances."

While we have established internal control procedures designed to monitor our operations and ensure overall compliance, such 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 fully effective. We cannot assure you that fraud or other misconduct will not occur in the future. Should we fail to detect and prevent fraud and other misconduct, our business reputation, financial condition and results of operations may be materially and adversely affected.

**A failure to appropriately identify and address conflicts of interest could materially and adversely affect our business.**

As we expand the scope of our business and our 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 legitimately exist but are in competition or conflict. We may encounter conflicts of interest arising among (i) our various operating units, (ii) our clients and us, (iii) our various clients, (iv) our employees and us or (v) our clients and our employees. See "Business – Risk Management – Conflicts of Interest."

In light of the complexity and difficulty in appropriately identifying and dealing with potential conflicts of interest, our internal control and risk management procedures that are designed to identify and address conflicts of interest may not be sufficient. Our failure to manage conflicts of interest could harm our reputation and erode client 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 materially and adversely affect our business, financial condition and results of operations.

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

We routinely transmit and receive personal data and confidential information of our clients through the Internet, by email and other electronic means and may not be able to ensure that our vendors, service providers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information.

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Various laws, regulations and rules require us to protect the personal data and confidential information of our clients. The relevant authorities may issue sanctions or orders against us if we fail to protect the personal information of our clients, and we may have to provide compensation for economic loss arising from our failure to protect the personal information of our clients in accordance with relevant laws and regulations. Incidents of mishandling personal information or failure to protect the confidential information of our clients could create a negative public or client perception of our operations or our brand, which may materially and adversely affect our reputation and prospects.

**Substantial legal liability or significant regulatory action against us could materially and adversely affect our business, financial condition and results of operations, or cause us significant reputational harm and seriously harm our business prospects.**

We face significant legal risks in our business, and the volume and amount of claims in litigation and regulatory proceedings against financial institutions are high. These risks include potential liabilities under securities or other laws for mishandling of personal data and confidential information of our clients, material false or misleading statements made in connection with securities or other transactions, potential liabilities for the advice provided to clients in corporate transactions and possible disputes over the terms and conditions of complex trading arrangements. We may also be subject to claims for alleged negligent conduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. We may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies.

We may be a party to legal proceedings and regulatory investigations arising from the ordinary course of our business. See “Business – Legal and Regulatory.” Actions 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 to us. In market downturns, the number of legal claims and amount of damages sought in litigations and regulatory proceedings may increase. A significant judgment, arbitration award or regulatory action against us, or a disruption in our business arising from adverse adjudications in proceedings against our Directors, senior management or key employees, would materially and adversely affect our liquidity, business, financial condition, results of operations and prospects.

**We have not obtained title certificates to some of the properties we occupy and some of our landlords lack relevant title certificates for properties leased to us, which may materially and adversely affect our rights to use such properties.**

As of the Latest Practicable Date, we owned 66 properties in the PRC with an aggregate gross floor area of 35,569.4 square meters. We have obtained the relevant building ownership certificates or/and land use rights certificates for these properties. In addition, we acquired a parcel of land with a total site area of 10,002.9 square meters in Zhengzhou for RMB100.6 million in October 2013 and are still in the process of applying for the land use right certificate.

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As of the Latest Practicable Date, we leased 74 properties in China, with an aggregate gross floor area of 70,477.9 square meters. Among these 74 properties, we have not been provided by the landlords with the building ownership certificates for 25 properties with a gross floor area of approximately 27,060.2 square meters, representing approximately 38.4% of the total gross floor area of the buildings we leased. We use these 25 leased properties primarily for offices and branches. See “Business – Properties.”

We are in the process of applying for the outstanding land use rights certificate for our acquired land. For leased properties with defective titles, we are pursuing our landlords for proof of title or to obtain the title certificates. However, the timing for obtaining such certificates or proof is beyond our control. Before we or our landlords have obtained proper title certificates for such properties, our plan for developing our headquarters building on the acquired land may be hindered and our right in relation to the leased properties may not be entirely protected.

We cannot assure you that our use and occupation of the relevant land and buildings will not be challenged. If we or our landlords cannot obtain the relevant certificates in a timely manner, or our legal right to use or occupy the relevant properties is challenged, we may incur additional relocation costs or it may affect our business operations, any of which may materially and adversely affect our business, financial condition, results of operations and prospects.

**The use of our Chinese name in this prospectus and the use of it in the course of trade or business in Hong Kong may be challenged due to potential trademark infringement and passing off.**

Our Company was established in Henan in 2002 and has since been carrying on business under the name of 中原证券股份有限公司 in the PRC. With the intention of applying for the registration of certain trademarks comprising 中原证券 and its variations in Hong Kong, covering the services of financial services, monetary affairs, securities brokerage, wealth management, asset management, fund management, investment advisory and capital investment, we sought the opinion of the Hong Kong Trade Marks Registry (the “**Trade Marks Registry**”) on the registrability of such marks. The Trade Marks Registry was of the view that the applications for such trademarks would likely to be refused due to prior registrations of similar marks in respect of identical and/or similar services. A search conducted on the on-line database of the Trade Marks Registry revealed that such similar marks were held by companies in the Centaline (中原) group of companies, which comprise, *inter alia*, 中原地產代理有限公司 (Centaline Property Agency Limited) and 中原證券有限公司 (Centaline Securities Limited), a company incorporated in Hong Kong engaging in the businesses of, among others, trading of securities and derivatives and ETFs. The Centaline group of companies will herein be referred to as “**Centaline**.”

We have been advised by our counsel, Mr. John M. Y. Yan, S.C., that (i) the use of “中原” in our Chinese name in the course of trade or business in relation to services identical or similar to the services in respect of which Centaline has registered and/or used the name or mark “中原” or names and/or marks comprising “中原,” may be subject to challenge from Centaline; and (ii) such challenge may take the form of claims for trademark infringement and/or passing off.

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Mr. Yan, S.C., has also advised that if legal proceedings are instituted by Centaline, Centaline may apply to the Hong Kong courts for an interlocutory injunction to restrain any use made by our Company of the name or mark “中原” and/or any name or mark comprising “中原” in the course of trade or business in Hong Kong. Mr. Yan, S.C., has advised that the risk of such an application for interlocutory injunction by Centaline being acceded to by the Hong Kong courts cannot be ruled out. Mr. Yan, S.C., further advised us that should such interlocutory injunction be granted, the acts restrained may include providing services to and allowing transactions to be performed by members of the public in Hong Kong through our existing website (where the name “中原证券股份有限公司” has been used since 2002).

While we have taken certain steps to minimize the potential risks arising from a claim brought by Centaline, such as:

- (i) not making use of the Chinese name 中原证券股份有限公司 in the course of any trade or business carried on by us in Hong Kong, but instead planning to trade and carry on business in Hong Kong under the Chinese name “中州证券”;
- (ii) applying for the registration of the trademark “中州证券 Central China Securities” and the registration of “中州证券” as our business name in Hong Kong; and
- (iii) putting a prominent notice on our existing website to state that the services and facilities offered thereon are only intended for members of the public in the PRC and taking steps to ensure that members of the public in Hong Kong will not be allowed to be registered as users of, or to use any of the online services and facilities made available on, our existing website;

there is no guarantee that even with the steps and measures as described above, Centaline will definitely not make any claim against us. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operations. In addition, should we be held liable for trademark infringement, our reputation as well as our business, financial condition and results of operations may be materially and adversely affected.

Furthermore, in line with the advice given by Mr. Yan, S. C., we have also provided guidelines to our employees that: (i) they should introduce our Company to our potential clients in the Chinese name of “中州证券” in Hong Kong; and (ii) they should use the Chinese name of “中州证券” for all external communication in Hong Kong.

**Our Controlling Shareholder is able to exercise significant influence over our Company and its interests may not be aligned with the interests of our other shareholders.**

Following the completion of the Global Offering, Henan Investment Group will remain the controlling shareholder of our Company. Immediately after completion of the Global Offering, Henan Investment Group will hold approximately 33.096% of our outstanding Shares.

As Henan Investment Group will remain as the controlling shareholder of our Company, it may have the ability to exercise significant influence over our business, including matters relating to our management and policies and decisions regarding mergers, expansion plans,



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business consolidation, the sale of all, or substantially all, of our assets, election of directors, dividends or other distributions and other significant corporate actions. In addition, the interests of Henan Investment Group may differ from the interests of our other Shareholders. Although Henan Investment Group has committed to us that it will not prejudice the interests of our Company, or our other Shareholders, by taking advantage of its position as the controlling shareholder of our Company, subject to our Articles of Association and applicable laws and regulations, Henan Investment Group will continue to have the ability to exercise substantial influence over us and to cause us to enter into transactions or take, or not to take, actions or make decisions which may conflict with the best interests of our other Shareholders.

### RISKS RELATING TO THE PRC

**Changes in the PRC economic, political and social conditions, as well as government policies, could have a material and adverse effect on our business, financial condition, results of operations and prospects.**

Substantially all of our business assets are located in the PRC and substantially all of our sales are derived from the PRC. In particular, we generated a substantial portion of our revenue from Henan during the Track Record Period. Accordingly, our results, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC government could affect our business and financial performance and may result in our inability to sustain our growth.

The economy of the PRC differs from the economies of most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate and control of foreign exchange. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC are still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any material and adverse effect on our future business, results or financial condition.

Our ability to continue to expand our business depends on a number of factors, including general economic and capital market conditions and credit availability from banks or other lenders. Recently, the PRC government has articulated a need to contain the build-up of a property bubble and may tighten its bank lending policies, including increasing interest rates on bank loans and deposits and tightening the money supply to control growth in lending. Stricter lending policies may, among other things, affect our and our clients' ability to obtain financing



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which may, in turn, materially and adversely affect our growth and financial condition. We cannot give any assurance that further measures to control growth in lending will not be implemented in a manner that may materially and adversely affect our growth and profitability over time. In addition, the global economic recession and market volatility that persisted in the past two years may continue and, therefore, we may not be able to sustain the growth rate we have historically achieved.

**Investments in PRC securities firms are subject to ownership restrictions that may materially and 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 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 shareholding above the 5.0% threshold 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 it could be subject to sanctions by the CSRC, 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, may materially and adversely affect the value of your investment.

**Uncertainties, with respect to the PRC legal system, could have a material and adverse effect on us.**

Our business and operations are primarily conducted in the PRC and are governed by the PRC laws and regulations, rules and regulations. The PRC legal system is based on written statutes and their interpretations by relevant legislative and judicial authorities. Prior court decisions may be cited for reference, but have limited weight as precedents. Since the late 1970s, the PRC government has significantly enhanced the PRC legislation and regulations to provide protection to various forms of foreign investments in the PRC. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involves uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based, in part, on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime after the violations. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

**You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our directors and senior management.**

We are incorporated under the laws of the PRC and substantially all of our assets are located in the PRC. In addition, almost all of our Directors and officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in

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effecting service of process from outside PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a court from a foreign jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a corresponding treaty with China or if the judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, China does not have any such treaties with Japan, the United Kingdom, the United States and many other countries providing for the reciprocal enforcement of judgments, resulting in uncertainties in relation to the enforcement of foreign judgments against us or our Directors and officers.

### **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 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348), dated June 28, 2011, issued by the SAT, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares varies from 5.0% to 20.0% (usually 10.0%), depending 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. 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” of this prospectus. In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) 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 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稅的通知) 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 have not sought to collect 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 disposition 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. Pursuant to a notice promulgated by the SAT, on November 6, 2008, we intend to withhold tax at 10.0% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will

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be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval. See "Appendix III – Taxation and Foreign Exchange – PRC." As the EIT Law and its implementation rules are relatively new, there are uncertainties as to their interpretation and implementation by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition 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.

### **Payment of dividends is subject to restrictions under PRC law.**

Under PRC law and our Articles of Association, we may only pay dividends out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in periods for which our financial statements indicate we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

Moreover, our operating subsidiaries in the PRC may not have distributable profit as determined under PRC GAAP. Accordingly, we may not receive sufficient distributions from our subsidiaries for us to pay dividends. Failure by our operating subsidiaries to pay us dividends could materially and adversely impact our ability to make dividend distributions to our Shareholders and our cash flow, including periods in which we are profitable.

### **Fluctuations in exchange rates, the value of the Renminbi and governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively.**

We receive all of our payments from customers in RMB and will need to convert RMB into foreign currencies for the payment of dividends, if any, to holders of our Shares. The RMB is currently not a freely convertible currency. Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our Shareholders if the PRC government restricts access to foreign currencies for current account transactions. Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

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The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2.0% against the U.S. dollars. The PRC government has made, and in the future may make, further adjustments to the exchange rate system.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Global Offering and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of RMB against the Hong Kong dollars could reduce the amount of any cash dividends on our Shares in Hong Kong dollar terms.

Furthermore, the net proceeds from the Global Offering are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected as we will not be able to invest these proceeds on RMB-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may materially and adversely affect our business, results of operations and financial condition.

### **We face risks related to force majeure events, natural disasters or outbreaks of contagious diseases in the PRC.**

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics, including but not limited to those caused by avian influenza or swine influenza, may restrict business activities in the areas affected and materially and adversely affect our business and results of operations. For example, in 2009 and 2013, there were reports of the occurrence of two types of avian influenza in certain regions of the world, including the PRC and Hong Kong, where we operate 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 the PRC 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, 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 customers, which may materially and adversely affect our business, financial condition and results of operations.

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### RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior public market for our H Shares. The trading volume and market price of the H Shares following the Global Offering may be volatile.**

Prior to the Global Offering, there was no public market for our H Shares. The initial offer price range to the public for our H Shares was the result of negotiations between us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Hong Kong Stock Exchange. However, the Global Offering does not guarantee that an active liquid public trading market for our H Shares will develop. In addition, the price and trading volumes of the H Shares may be volatile. Factors, such as variations in our revenue, earnings and cash flows or any other developments of our Company, may affect the volume and price at which the H Shares will be traded.

**There can be no assurance if and when we will pay dividends in the future.**

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Under the applicable PRC laws, dividends may be paid only out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. A decision to declare, or to pay, any dividends and the amount of any dividends will also depend on various factors, including, but not limited to, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, our Articles of Association, the Company Law and any other applicable PRC laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board from time to time, to be relevant to the declaration or suspension of dividend payments. As a result, although we have paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See “Financial Information – Dividend Policy.”

**The trading volume and market price of our H Shares may be volatile and no price stabilization activities will be conducted by the underwriters, which may result in substantial losses for investors who purchase our H Shares in the Global Offering.**

The price and trading volume of our H Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of competition, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigations fluctuations in the market prices and changes in the demand for our products or services could cause large and sudden changes in the volume and price at which our H Shares will trade. In addition, the Hong Kong Stock Exchange



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and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. Furthermore, if the trading volume of our Shares is low, the price fluctuations may be exacerbated. These fluctuations may also materially and adversely affect the market price of our H Shares.

Normally, a stabilizing manager acting on behalf of the underwriters may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the offer shares at a level higher than that which might otherwise prevail in the open market. However, given that we will not grant any over-allotment option to the underwriters, no stabilizing manager has been appointed by us in connection to the Global Offering and it is anticipated that no price stabilization activities will be conducted by any underwriters, which may result in substantial losses for investors during the period when price stabilization activities would normally have been conducted. See “Risk Factors – Risks relating to Our Business and Industry – Our equity financing option is limited due to CSRC requirements on foreign shareholding in a listed PRC securities firm.”

**Future sales or perceived sales of substantial amounts of our securities in the public market, including any future public offering in the PRC, sale of our H Shares by NSSF or re-registration of our Domestic Share into H Shares, could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings.**

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules” of this prospectus. After these restrictions lapse or if they are waived or breached, future sales or perceived sales of substantial amounts of our Shares, or the possibility of such sales by us, could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

In addition, the number of H Shares to be converted from Domestic Shares and held by NSSF immediately after the Global Offering will amount to 59,810,000, representing 10.0% of our total Offer Shares. The NSSF has not entered into any lock-up agreement with us or the Underwriters and would be free to sell its H Shares at any time after the Global Offering. This may also materially and adversely affect the prevailing market price of our H Shares.

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## RISK FACTORS

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**Because the initial public Offer Price per H Share is higher than the net tangible book value per H Share, purchasers of our H Shares in the Global Offering will experience immediate dilution.**

The Offer Price of our H Shares is higher than the net tangible book value per Share of our H Shares immediately prior to the Global Offering. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible asset value of HK\$2.66 per H Share (assuming an Offer Price of HK\$2.83 per H Share, being the mid-point of our Offer Price range of HK\$2.51 to HK\$3.14 per H Share) and existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. If we issue additional H Shares in the future, purchasers of our H Shares may experience further dilution.

**Some facts, forecasts and statistics contained in this prospectus with respect to the PRC, Hong Kong and their economies and securities industries are derived from various official or third-party sources and may not be accurate, reliable, complete or up-to-date.**

We have derived certain facts, forecasts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the industry in which we operate, from information provided by the PRC and other government agencies, industry associations, independent research institutes or 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 underwriters or any of our or their respective affiliates or advisors. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis. We cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Such facts, forecasts and statistics include the facts, forecasts and statistics used in “Risk Factors,” “Industry Overview” and “Business.” Because of 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 to 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, forecasts or statistics.



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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules:

### MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Hong Kong Listing Rules, our Company must have sufficient management presence in Hong Kong. This usually means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Hong Kong Listing Rules states that the requirement under Rule 8.12 of the Hong Kong Listing Rules applies to a new applicant incorporated in the PRC, but also provides that the requirement may be waived by the Hong Kong Stock Exchange in its discretion.

Our headquarters and substantially all of our business operations are based, managed and conducted in the PRC. As the executive Directors play very important roles in our Company's business operations, it is in our best interests for them to be based in or be near the places where our Group has significant operations. Therefore, our Company currently does not, and in the foreseeable future will not, have executive Directors who are ordinarily resident in Hong Kong. Currently, our two executive Directors are ordinarily resident in the PRC. For further details of our two executive Directors, see "Directors, Supervisors, Senior Management and Employees – Directors."

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 Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules. We have made the following arrangements in order to maintain effective communication with the Hong Kong Stock Exchange:

- we have appointed Mr. JIAN Mingjun, the Chairman and an executive Director and Ms. KWONG Yin Ping Yvonne, one of our joint company secretaries, as our authorized representatives and they will serve as our Company's principal channel of communication with the Hong Kong Stock Exchange and would be readily contactable by the Hong Kong Stock Exchange, and if required, will be able to meet with the Hong Kong Stock Exchange to discuss any matters in relation to our Company on short notice;
- we have provided the authorized representatives and the Hong Kong Stock Exchange with the contact details of each Director, including mobile phone numbers, office phone numbers, email addresses and fax numbers. Both of our authorized representatives have means of contacting all Directors (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any reason;
- each of the Directors who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong to meet with the Hong Kong Stock Exchange within a reasonable period of time when requested by the Hong Kong Stock Exchange; and

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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- we have appointed Guotai Junan Capital Limited as our compliance advisor who will serve as an additional channel of communication of our Company with the Hong Kong Stock Exchange from the Listing Date to the date when our Company distributes our annual report to our Shareholders for the first full financial year immediately after the listing of our H Shares.

### APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Hong Kong Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Hong Kong Listing Rules. According to Rule 3.28 of the Hong Kong Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Hong Kong Listing Rules sets forth the academic and professional qualifications considered to be acceptable by the Hong Kong Stock Exchange:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Note 2 to Rule 3.28 of the Hong Kong Listing Rules sets forth the factors that the Hong Kong Stock Exchange considers when assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Hong Kong Listing Rules and other relevant laws and regulations including the Securities and Futures Ordinance, Companies Ordinance, and the Code on Takeovers and Mergers issued by the Securities and Futures Commission;
- (c) 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
- (d) professional qualifications in other jurisdictions.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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We have appointed Ms. XIE Xuezhū as our joint company secretary. She joined our Company in 2002 and acts as the secretary to our Board from September 2009, and has more than 20 years of experience in the securities industry, with sound understanding of the operations of our Board and our Company. For details of Ms. XIE Xuezhū, see “Directors, Supervisors, Senior Management and Employees – Senior Management.” Ms. XIE Xuezhū, however, does not possess the specified qualifications required by Rule 3.28 of the Hong Kong Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- Ms. XIE Xuezhū will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Hong Kong Listing Rules organized by the Company’s Hong Kong legal advisors on an invitation basis and seminars organized by the Hong Kong Stock Exchange for PRC issuers from time to time, in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules;
- we have appointed Ms. KWONG Yin Ping Yvonne, who meets the requirements under Note 1 to Rule 3.28 of the Hong Kong Listing Rules, as a joint company secretary to work closely with and to provide assistance to Ms. XIE Xuezhū in the discharge of her duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Ms. XIE Xuezhū to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Hong Kong Listing Rules) to discharge the duties and responsibilities as company secretary; and
- upon expiry of the three-year period, the qualifications and experience of Ms. XIE Xuezhū will be re-evaluated. Ms. XIE Xuezhū is expected to demonstrate to the Hong Kong Stock Exchange’s satisfaction that she, having had the benefit of Ms. KWONG Yin Ping Yvonne’s assistance for three years, would then have acquired the “relevant experience” within the meaning of Note 2 to Rule 3.28 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 of Rule 3.28 and Rule 8.17 of the Hong Kong Listing Rules. Upon expiry of the initial three-year period, the qualifications of Ms. XIE Xuezhū will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Hong Kong Listing Rules can be satisfied. In the event that Ms. XIE Xuezhū has obtained relevant experience under Note 2 to Rule 3.28 of the Hong Kong Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

**DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to our Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus materially misleading.

**CSRC APPROVALS**

We have obtained approvals from the CSRC for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on April 23, 2014. In granting such consent, the CSRC accepts no responsibility for our financial soundness or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

**THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

**UNDERWRITING**

For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in "Underwriting," subject to agreement on the offer price between us and the Joint Global Coordinators (on behalf of the Underwriters). The International Underwriting Agreement is expected to be entered into on or about June 17, 2014. For further details about the Underwriters and the underwriting arrangements, see "Underwriting."

**RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or by his/her acquisition of Hong Kong Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the related Application Forms may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the related Application Forms and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered for subscription or sale solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisors, agents or representatives or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” of this prospectus and the relevant Application Forms.

### **APPLICATION FOR LISTING OF THE H SHARES ON THE HONG KONG STOCK EXCHANGE**

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, (i) our H Shares to be issued pursuant to the Global Offering and (ii) the H Shares which will be converted from Domestic Shares and transferred to NSSF pursuant to the relevant PRC regulations relating to reduction of state-owned shares.

Our A Share offering was approved by our Shareholders’ meeting on August 30, 2012 and its application was submitted to and acknowledged receipt by the CSRC in September 2012. To accommodate our plan on the Listing, we submitted an application to the CSRC to suspend the review of our A share offering application on March 24, 2014 in accordance with the relevant regulatory requirements. As such, our proposed A share offering will only resume after the completion of the Global Offering. We expect our proposed A share offering to be completed after June 2015, subject to the CSRC’s approval and the then market conditions. For further information, see “Share Capital – The Proposed A Share Offering.” Save as disclosed in this prospectus, no part of our Share is listed or dealt in on any other stock exchange.

**PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, or dealing in our H Shares or exercising any rights attached to them, you should consult an expert. It is emphasized that none of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, advisors, agents or representatives nor any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, or dealing in our H Shares or exercising any rights attached to them.

**OVER-ALLOTMENT AND STABILIZATION**

Pursuant to Article 25 of the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則), the aggregate of direct holdings and/or indirect control in the equity interest of a listed PRC-incorporated securities firm by all foreign investors shall not exceed 25.0%. In order not to contravene the above rules, no over-allotment option will be granted by our Company in connection with the Global Offering. No stabilization manager will be appointed and it is anticipated that no stabilization activity will be carried out. See “Risk Factors – Risks Relating to the Global Offering – The trading volume and market price of our H Shares may be volatile, which may result in substantial losses for investors who purchase our H Shares in the Global Offering.”

**PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus and in the Application Forms.

**STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Particulars of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering.”

**REGISTER OF MEMBERS AND STAMP DUTY**

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to the Hong Kong stamp duty.

**REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholders, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agrees with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

**H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisors for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted into CCASS.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### CURRENCY TRANSLATIONS

Solely for your convenience, this prospectus contains translations of certain RMB amounts into Hong Kong dollars, RMB amounts into U.S. dollars, and Hong Kong dollars into U.S. dollars.

RMB0.7958 : HK\$1.0000 (set by the PBOC for foreign exchange transactions prevailing on May 30, 2014)

RMB6.2471 : US\$1.0000 (the noon buying rates as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on May 30, 2014)

HK\$7.7523: US\$1.0000 (the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve Board of the United States on May 30, 2014)

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

### ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<i>Executive Directors and Non-executive Directors</i>		
Mr. JIAN Mingjun (菅明軍)	West Room, 6/F, Building 6 Guolong Shui'an Garden Hongtu Street Zhengdong New District Zhengzhou, Henan Province China	Chinese
Mr. ZHOU Xiaoquan (周小全)	West Room, 4/F, Unit 1, Building 16 Phase VII of Lianmeng Xincheng Nongye Road, Zhengdong New District Zhengzhou, Henan Province China	Chinese
Mr. LI Xingjia (李興佳)	No. 38, Building 3, North 27 Yard Jing'er Road Jinshui District Zhengzhou, Henan Province China	Chinese
Mr. WANG Jinian (王紀年)	Room 2062, No. 15 Huaibaishu Street Xicheng District Beijing China	Chinese
Mr. ZHANG Qiang (張強)	No. 18, Building 8, No. 8 Yard Qidong Road, Yindu District Anyang, Henan Province China	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<i>Independent Non-executive Directors</i>		
Mr. ZHU Shanli (朱善利)	No. 1606, Building 4 Lanqiyang, Haidian District Beijing China	Chinese
Mr. YUAN Dejun (苑德軍)	Room 305, Building 8 Longxiang Jiayuan Olympic Village, Chaoyang District Beijing China	Chinese
Ms. SHI Dan (史丹)	No.1201, Unit 1, Building 3 Muxidi Apartment, Xicheng District Beijing China	Chinese
Mr. YUEN Chi Wai (袁志偉)	Flat C, 16/F, Block 2 The Grand Panorama 10 Robinson Road Mid-Levels Hong Kong	Chinese (Hong Kong)

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**SUPERVISORS**

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Mr. ZHOU Jianzhong (周建中)	No. 3, Building 6, No. 3 Yard Jingba Road Jinshui District Zhengzhou, Henan Province China	Chinese
Ms. WANG Rui (王銳)	No. 7, Building 1, No. 104 Yard Jinshui Road Jinshui District Zhengzhou, Henan Province China	Chinese
Mr. YAN Changkuan (閆長寬)	No. 3, Building 57, No. 56 Yard Wenfeng Avenue Yindu District Anyang, Henan Province China	Chinese
Mr. JI Guangyuan (姬廣遠)	West Room, 3/F, Unit 4, Building 9 Phase II of Huanshang Renjia Huanbin North Road Huanbei Street Office Beiguan District Anyang, Henan Province China	Chinese
Mr. ZHU Qiben (朱啟本)	No. 8, Building 6, No. 90 Yard Wenhua Road Jinshui District Zhengzhou, Henan Province China	Chinese
Mr. LI Feng (李峰)	No. 74, Building 4, No. 6 Yard Xinyuan West Road Jinshui District Zhengzhou, Henan Province China	Chinese

**Further information about the Directors, Supervisors and other senior management members are set out in “Directors, Supervisors, Senior Management and Employees.”**

**PARTIES INVOLVED IN THE GLOBAL OFFERING**

<b>Party</b>	<b>Name and Address</b>
<b>Sole Sponsor</b>	<b>CCB International Capital Limited</b> 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong  (a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO)
<b>Lead Global Coordinator</b>	<b>CCB International Capital Limited</b> 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong
<b>Joint Global Coordinators</b>	<b>CCB International Capital Limited</b> 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong  <b>ICBC International Capital Limited</b> 37/F, ICBC Tower 3 Garden Road Hong Kong  <b>The Hongkong and Shanghai Banking Corporation Limited</b> 1 Queen's Road Central Hong Kong  <b>BOCOM International Securities Limited</b> 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong

**Joint Bookrunners**

**DBS Asia Capital Limited**

17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

**CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

**ICBC International Capital Limited**

37/F, ICBC Tower  
3 Garden Road  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**

1 Queen's Road Central  
Hong Kong

**BOCOM International Securities Limited**

9th Floor, Man Yee Building  
68 Des Voeux Road  
Central  
Hong Kong

**DBS Asia Capital Limited**

17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

**ABCI Capital Limited**

Room 701, 7/F, One Pacific Place  
88 Queensway  
Hong Kong

**BOCI Asia Limited**

26th Floor, Bank of China Tower  
1 Garden Road  
Hong Kong

**Joint Lead Managers**

**GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Central  
Hong Kong

**CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

**ICBC International Securities Limited**

37/F, ICBC Tower  
3 Garden Road  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**

1 Queen's Road Central  
Hong Kong

**BOCOM International Securities Limited**

9th Floor, Man Yee Building  
68 Des Voeux Road  
Central  
Hong Kong

**DBS Asia Capital Limited**

17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

**ABCI Securities Company Limited**

Room 701, 7/F, One Pacific Place  
88 Queensway  
Hong Kong

**BOCI Asia Limited**

26th Floor, Bank of China Tower  
1 Garden Road  
Hong Kong



**GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Central  
Hong Kong

**China Galaxy International Securities (Hong Kong) Co., Limited**

Unit 3501-7, 3513-14, 35/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

**Qilu International Securities Limited**

7th Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Central  
Hong Kong

**Essence International Securities (Hong Kong) Limited**

39/F., One Exchange Square  
Central  
Hong Kong

**Legal Advisors to the Company**

*as to Hong Kong law:*

**Li & Partners**

22/F, World-Wide House  
19 Des Voeux Central  
Hong Kong

*as to PRC law:*

**Beijing Junzhi Law Offices**

9/F, Timeson Tower  
No. B12, Chaoyang Men North Street  
Beijing  
PRC

**Legal Advisors to the Underwriters**

*as to Hong Kong law:*

**Clifford Chance**  
27/F, Jardine House  
One Connaught Place  
Central  
Hong Kong

*as to PRC law:*

**Jia Yuan Law Offices**  
F408, Ocean Plaza  
158 Fuxing Men Nei Avenue  
Xicheng District  
Beijing  
PRC

**Reporting Accountant**

**PricewaterhouseCoopers**  
*Certified Public Accountant*  
22nd Floor, Prince's Building  
Central  
Hong Kong

**Receiving Bank**

**Bank of China (Hong Kong) Limited**  
1 Garden Road  
Hong Kong

**China Construction Bank (Asia)  
Corporation Limited**  
22/F CCB Centre  
18 Wang Chiu Road  
Kowloon Bay  
Kowloon  
Hong Kong

**DBS Bank (Hong Kong) Limited**  
16/F, The Centre  
99 Queen's Road Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered Address</b>	No. 10 Shangwu Waihuan Road Zhengdong New District Zhengzhou, Henan Province China
<b>Headquarters/Principal Place of Business</b>	No. 10 Shangwu Waihuan Road Zhengdong New District Zhengzhou, Henan Province China
<b>Place of Business in Hong Kong</b>	18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
<b>Company Website</b>	<a href="http://www.ccnew.com">http://www.ccnew.com</a> (information on the website does not form part of this prospectus)
<b>Legal Representative</b>	JIAN Mingjun (菅明軍)
<b>Joint Company Secretaries</b>	<b>XIE Xuezhong (謝雪竹)</b> Room 4, Unit 1, Building 16 No. 27 Tianfu Road Zhengdong New District Zhengzhou, Henan Province China  <b>KWONG Yin Ping Yvonne (鄺燕萍)</b> 18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong  (for details of the qualifications of Ms. XIE Xuezhong and Ms. KWONG Yin Ping Yvonne, see "Directors, Supervisors, Senior Management and Employees – Senior Management" and "Directors, Supervisors, Senior Management and Employees – Joint Company Secretaries")

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## CORPORATE INFORMATION

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### Authorized Representatives

**JIAN Mingjun (菅明軍)**  
West Room, 6/F, Building 6  
Guolong Shui'an Garden  
Hongtu Street  
Zhengdong New District  
Zhengzhou, Henan Province  
China

**KWONG Yin Ping Yvonne (鄺燕萍)**  
18/F, Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

### Members of the Development and Strategy Committee

Mr. JIAN Mingjun (*Chairperson*)  
Mr. ZHOU Xiaoquan  
Mr. LI Xingjia  
Mr. ZHANG Qiang  
Mr. WANG Jinian

### Members of the Remuneration and Nomination Committee

Mr. YUAN Dejun (*Chairperson*)  
Mr. ZHOU Xiaoquan  
Mr. ZHU Shanli

### Members of the Audit Committee

Mr. YUEN Chi Wai (*Chairperson*)  
Ms. SHI Dan  
Mr. LI Xingjia

### Members of the Risk Control Committee

Mr. JIAN Mingjun (*Chairperson*)  
Mr. WANG Jinian  
Mr. ZHU Shanli

### H Share Registrar

**Computershare Hong Kong Investor Services Limited**  
Shops 1712-1716, 17/F.  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

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## CORPORATE INFORMATION

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### Compliance Advisor

#### **Guotai Junan Capital Limited**

27/F., Low Block, Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

(a licensed corporation to conduct type 6  
(advising on corporate finance) regulated  
activities under the SFO)

### Principal Bankers

#### **China Construction Bank Corporation**

Qihuo Cheng Branch of Zhengzhou  
No. 71 Weilai Avenue  
Zhengzhou, Henan Province  
China

#### **Industrial and Commercial Bank of China Co., Ltd.**

Huayuan Road Branch of Zhengzhou  
No. 8 Weiwu Road  
Jinshui District  
Zhengzhou, Henan Province  
China

#### **Agricultural Bank of China Limited**

Zhengdong Branch of Zhengzhou  
No. 16, Shangwu Waihuan Road  
Zhengdong New District  
Zhengzhou, Henan Province  
China

#### **Bank of Communication Co., Ltd.**

Jingsan Branch of Zhengzhou  
No. 21 Jingsan Road  
Zhengzhou, Henan Province  
China

#### **China CITIC Bank Corporation Limited**

Branch of Zhengzhou  
1/F, No. 1 Shangwu Neihuan Road  
Zhengdong New District  
Zhengzhou, Henan Province  
China

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## CORPORATE INFORMATION

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**China Everbright Bank Co., Ltd.**

Keji Branch of Zhengzhou  
The cross of Dongfeng Road  
and Yuantian Road  
Jinshui District  
Zhengzhou, Henan Province  
China

**China Merchants Bank**

Zijingshan Road Branch of Zhengzhou  
No. 5 Zijingshan Road  
Jinshui District  
Zhengzhou, Henan Province  
China

**Industrial Bank Co., Ltd.**

Shangwu Waihuan Road Branch  
No. 6 Shangwu Waihuan Road  
Zhengdong New District  
Zhengzhou, Henan Province  
China

## INDUSTRY OVERVIEW

*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. As a leading integrated service provider of financial data, information and software in the PRC domestic market, Wind Info serves financial enterprises, including securities companies, fund management companies, insurance companies, banks and investment companies. The financial database of Wind Info contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data and market estimates provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The information and data derived from Wind Info are not commissioned by us or the Sole Sponsor 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 Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, advisors, agents or representatives or any other party involved in the Global Offering and no representation is given as to its accuracy. Such information may not be consistent with, 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 unduly relied upon.*

### ECONOMY IN CHINA

China has experienced rapid economic growth since the reforms and opening up of the economy in the late 1970s. From 2009 to 2013, China's nominal GDP increased from RMB34.1 trillion to RMB56.9 trillion, representing a CAGR of 13.7%. We believe that China's economy will continue to achieve rapid and steady growth in the foreseeable future. The following table sets forth China's nominal GDP for the years indicated:

	2009	2010	2011	2012	2013	2009 to 2013 CAGR
GDP (RMB in billions) . . . . .	34,090.3	40,151.3	47,310.4	51,947.0	56,884.5	13.7%

Source: Wind Info



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## INDUSTRY OVERVIEW

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### ECONOMY IN HENAN

Henan, located in Central China, ranked first among the 18 provinces in central and western regions of China and ranked fifth among all provinces in China, in terms of nominal GDP in 2013. In 2012, nominal GDP of Henan reached RMB3.0 trillion, comparable to the 26th largest economy in the world, according to the World Bank. Henan's nominal GDP accounted for 25.3% of that of the six provinces in Central China in 2013, amounting to RMB3.2 trillion. The following table sets forth the nominal GDP of the six provinces in Central China in 2013:

	<u>Six provinces in Central China</u>	<u>Henan</u>	<u>Hubei</u>	<u>Hunan</u>	<u>Anhui</u>	<u>Jiangxi</u>	<u>Shanxi</u>
Nominal GDP (RMB in billions) . . . . .	12,730.6	3,215.6	2,466.8	2,450.2	1,903.9	1,433.9	1,260.2
Percentage. . . . .	100.0%	25.3%	19.4%	19.2%	15.0%	11.3%	9.9%

Source: Wind Info

Considerable domestic demand resulting from a large population and rising urbanization has resulted in and will continue to contribute to the sustained and steady growth in Henan's economy. At the end of 2013, Henan's population totaled approximately 106.0 million, making it the most populous province in China. At the end of 2013, Henan's urbanization rate reached 43.8%, about ten percentage points lower than the national average, showing significant potentials for further urban development. According to the 2013 Government Work Report of Henan, the provincial government intends to increase the urbanization rate of Henan to 52.0% by 2017 through establishing various measures to facilitate the migration of rural residents and encouraging localized urbanization. Accordingly, the urbanization rate in Henan is expected to register an average growth rate of 1.9% each year, accelerating local economic and social development.

Henan is the central hub connecting eastern and western regions of China, embracing various industries' migration from the coastal areas in southeast China. Henan has abundant natural resources with a comprehensive mix of industries, particularly equipment manufacturing, non-ferrous metal and food industries. Henan is accelerating its economic transformation and optimizing its industry structure. In 2012, six high-growth industries in Henan, namely, electronic information, equipment manufacturing, automobile, food processing, light industry and new materials, contributed 57.9% of the total added-value from enterprises in Henan, whose total annual revenue exceed RMB20 million according to the 2013 Government Work Report of Henan. We believe these high-growth industries could drive the sustained growth of Henan's economy.

### ECONOMIC DEVELOPMENT POLICIES IN HENAN

#### National Strategic Plans in Henan

Henan's economy has benefited and will continue to benefit from the implementation of the following three PRC national strategies relating to Henan amid the Rise of Central China Plan:

- “Central Plains Economic Zone (中原經濟區).” In September 2011, the State Council issued the Guiding Opinions of the State Council on Supporting Henan Province to Accelerate the Construction of Central Plains Economic Zone (國務院關於支持河南省加快建設中原經濟區的指導意見), making the Central Plains Economic Zone a national strategic plan which intends to advance the industrialization, urbanization and agricultural modernization of Henan. This strategic plan also intends to enhance the development of local financial institutions and financial markets and products, to build multi-tiered capital markets and accelerate the development of the Zhengdong New District with centralized financial functions.
- “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合實驗區).” In March 2013, the State Council approved the Planning and Development of Zhengzhou Comprehensive Experimental Zone for Airport-based Economy (鄭州航空港經濟綜合實驗區發展規劃), the first pilot economic zone under national strategic planning in China, which is envisioned to develop the Zhengzhou Airport and the surrounding areas into an integrated air, railway and highway transportation hub, an air-freight center and an airport-based metropolitan area.
- “National Core Producing Area of Grains (國家糧食生產核心區).” In August 2009, the State Council proposed the Outline for the Construction of Henan Core Area of National Food Strategy (國家糧食戰略工程河南核心區建設規劃綱要), making it a national food strategic plan in China. Based on this plan, it is expected that Henan will build a long-term and stable growth plan for grain production.

We believe that the continued implementation of these three national strategic plans will contribute greatly to local economic growth and social wealth accumulation. In the meantime, the securities industry in Henan could benefit from (i) increased equity and debt financing activities by public and private sectors; (ii) increased M&A and financial advisory opportunities from industry consolidation; (iii) abundant opportunities for venture capital and private equity investments in high-growth industries; and (iv) expanded wealth management and investment needs.

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## INDUSTRY OVERVIEW

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### Financial Industry Policies

Henan government emphasizes local capital market development. According to the “Opinions on further enhancing the financial work and accelerating the development of financial industry” issued by the Henan government (河南省人民政府關於進一步加強金融工作加快金融業發展的意見), the Henan government intends to increase the number of Henan-based publicly-listed companies from 65 (as of December 31, 2013) to over 150 by 2015 through commensurating the “Green Channel” system and establishing a whole-process assistance program to facilitate public listing of Henan-based companies. According to a government work report published by the third session of the 12th Henan Provincial People’s Congress on January 16, 2014, Henan government plans to actively pursue equity and debt financing in the private or public sector, development of regional OTC board and local venture capital and private equity funds, expansion of municipal bonds and SME private bonds, trial development of perpetual bonds, and the accelerated reforms of local financial institutions, as well as the Hong Kong IPO of Central China Securities. In addition, according to a speech given by the Henan governor in a provincial economic work conference held in December 2013, the Henan government intends to encourage local financial institutions to accelerate their reforms and Central China Securities to seek its IPO in Hong Kong in order to gradually become a modern financial holding group.

### CHINA’S SECURITIES INDUSTRY

Benefited from China’s economic growth and favorable regulatory environment, China’s capital market has grown substantially in scale and maturity during the past two decades. The total market capitalization of companies listed in China’s stock markets reached RMB23.9 trillion at the end of 2013 compared to RMB3.7 trillion at the end of 2004, representing a CAGR of 23.0%. Despite the rapid growth, China’s capital market is still in an early stage compared with major developed countries in the world. China’s securitization ratio reached 42.1% as of December 31, 2013, which is much lower than the securitization ratios of 143.1% in the U.S., 165.0% in the U.K., and 100.0% in Japan, indicating further growth potential.

### Brokerage

In line with the development of the PRC securities market, stocks and funds trading volume has increased from RMB8.6 trillion in 2004 to RMB96.6 trillion in 2013, with a CAGR of 30.9%. At the same time, the number of securities brokerage accounts has grown from 72.2 million in 2004 to 219.6 million in 2013, making a CAGR of 13.2%. The following table sets forth the stocks and funds brokerage trading volume and securities brokerage accounts from 2004 to 2013:

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Brokerage trading volume (RMB in trillions) . . . . .	8.6	6.5	18.5	93.8	54.6	109.3	110.9	85.6	64.5	96.6	30.9%
Number of brokerage accounts (in millions) . . . . .	72.2	73.4	78.5	138.9	152.0	171.5	188.6	202.6	210.8	219.6	13.2%

Source: Wind Info

## INDUSTRY OVERVIEW

Due primarily to the intense competition in the brokerage market in China, average securities brokerage commission rates have decreased in recent years and recorded a slower decline since 2012. In 2014, online discount brokerage providers emerged and the competition may become more intense. It is expected that the average securities brokerage commission rates in China may continue to decrease. Securities firms strive to provide more value-added services to mitigate the impact of decreasing rates. In addition, the scale of margin financing and securities lending business has grown rapidly since its inception, which helps stabilize brokerage commission rates and increases brokerage trading volume through margin trading. This business has become and will continue to be a key area for revenue and profit growth for PRC securities firms. The following table sets forth the trading volume from margin financing and securities lending and balance of margin loans and securities lent in China from 2011 to 2013:

<u>(RMB in billions)</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>CAGR</u>
Trading volume. . . . .	318.12	904.40	3,866.75	248.6%
Balance of margin loans and securities lent . . . . .	38.21	89.52	346.53	201.2%

*Source: Wind Info*

### Investment Banking

#### *Equity financing*

The number of listed companies in China increased rapidly from 1,700 in 2009 to 2,489 in 2013, representing a CAGR of 10.0%. After the stock market downturn in 2008, China's equity financing increased rapidly from 2009 to 2011. Due primarily to the suspension of IPO reviews by the CSRC in 2012, equity financing decreased in 2012 and 2013. As the suspension of IPO reviews was lifted, the reform plan for the IPO system was announced and innovative products, such as preferred shares, were introduced in early 2014; as such, the scale of equity financing is expected to grow rapidly. In addition, the development of the NEEQ and other regional OTC boards will facilitate the growth of multi-tiered capital markets in China. The following table sets forth the total amount of equity financing in China:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total amount of equity financing (RMB in billions). . . . .	502.4	959.4	682.1	448.8	401.6

*Source: Wind Info*

#### *Debt financing*

According to Wind Info, the amount of financial bonds, corporate bonds and enterprise bonds underwritten by PRC securities firms increased from RMB674.1 billion in 2009 to RMB842.0 billion in 2013, representing a CAGR of 5.7%. The amount of debt financing only constitutes a small proportion of the total financing in China. The introduction of more favorable government policies and a more balanced financing structure is expected to contribute to the growth of the PRC bond market.

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## INDUSTRY OVERVIEW

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### *Financial advisory*

According to Wind Info, the total value of China's completed M&A transactions reached RMB452.7 billion in 2013 from RMB185.3 billion in 2009, representing a CAGR of 25.0%. The transformation of China's economy and increased industry consolidation is expected to facilitate the financial advisory business of securities companies.

### **Asset management**

According to the SAC, the asset management business of PRC securities firms has grown substantially from 2009 to 2013, whose AUM increased from RMB148.3 billion in 2009 to RMB5,200.0 billion in 2013, representing a CAGR of 143.3%. As social wealth and the number of high-net-worth individuals increase, the asset management business will continue to expand. We expect the development of asset-backed securitization and cash management products could also contribute to the growth of asset management business of PRC securities firms.

### **Proprietary Trading Business**

The CSRC has broadened the scope of investment for securities firms' proprietary business, which permitted PRC securities firms to invest in financial futures, commodity futures and other non-securities financial products, such as bank financial products and collective trust programs. The diversity of proprietary trading business helps reduce the adverse impact from market fluctuations. It also makes the proprietary trading business less dependent on the stock market.

### **Innovative Businesses**

PRC regulatory authorities have gradually deregulated and introduced new regulations and rules to encourage and accelerate innovative businesses in the securities industry. As a result, innovative businesses have become key revenue drivers for PRC securities firms. Innovative businesses, include, among others, capital-based intermediary businesses, dealer-quoted bond repurchase, non-financial bonds and SME private bonds, cash management and asset-backed securitization and direct investment. According to the SAC, revenue from the innovative businesses amounted to RMB9.8 billion in 2012, representing 7.6% of the total industry revenue.

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## INDUSTRY OVERVIEW

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### SECURITIES INDUSTRY IN HENAN

#### Brokerage

Securities brokerage trading volume in Henan has increased significantly in the past decade. According to Wind Info, brokerage trading volume of stocks and funds increased from RMB161.4 billion in 2004 to RMB2,060.8 billion in 2013, representing a CAGR of 32.7%. The net brokerage commission rate in Henan outperformed the national average during the past few years. The following table sets forth the brokerage trading volume of stocks and funds in Henan:

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004- 2013 CAGR
Brokerage trading volume (RMB in billions).	161.4	123.0	332.0	1,840.6	1,086.8	2,420.0	2,461.4	1,905.6	1,371.2	2,060.8	32.7%

*Source: Wind Info*

Despite its rapid growth, the securities brokerage market in Henan has a relatively limited scale. The brokerage trading volume of stocks and funds in Henan only accounted for 64.0% of Henan's GDP in 2013, behind the national average of 169.8% and the remaining five provinces in Central China. In addition, the brokerage trading volume of stocks and funds per capita in Henan was RMB21,894 in 2013, considerably lower than the national average of RMB70,970 and ranking last among the six provinces in Central China. As Henan accelerates its urbanization process and increases the disposable income per capita, securities brokerage demand is expected to increase steadily.

The securities market in Henan is highly centralized and mainly concentrated in Zhengzhou, the capital city of Henan. As of December 31, 2013, there were 77 securities branches in Zhengzhou, accounting for nearly 43.8% of the total number of securities branches in Henan, indicating an unbalanced distribution of securities branches. As of the same date, Central China Securities had 46 securities branches in Henan, the most extensive branch network coverage in Henan. Central China Securities strategically locates its branch network to cover the entire 18 prefecture-level cities in Henan. We believe that securities firms with extensive branch networks in Henan will benefit from the opportunities arising from the development of regional brokerage business.

The margin financing and securities lending business in Henan is expanding rapidly, benefiting from the growth of the brokerage business and extensive customer base. According to Securities and Futures Association of Henan, revenue from this business in Henan increased from RMB78.0 million in 2012 to RMB418.0 million in 2013. We believe the customer penetration rate for this business in Henan is relatively low and thus has considerable potential for future growth. Central China Securities ranked first in Henan in terms of the balance of its

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## INDUSTRY OVERVIEW

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margin loans and securities lent as of December 31, 2013, representing approximately 24.2% of the local market share as of December 31, 2013. We believe that securities firms with a strong brokerage business, an extensive customer base and substantial financial strength could benefit from the opportunities arising from the further expansion of the margin financing and securities lending business.

### Investment Banking

#### *Equity financing*

The amount of equity financing in Henan reached RMB10.3 billion, RMB17.1 billion and RMB7.9 billion in 2011, 2012 and 2013, respectively. As of December 31, 2013, there were 65 domestically-listed companies in Henan, representing 2.6% of the number of listed companies in China, ranking fourth among the six provinces in Central China. As of December 31, 2013, Henan's securitization ratio was 13.7%, which was far behind the national average of 42.1% and the second lowest among the six provinces in Central China. Taking advantage of the regional economic development and favorable government policies, we believe Henan's securitization ratio will further increase, creating new market opportunities for local securities firms. The following table sets forth the securitization ratios and the number of domestically-listed companies in the six provinces of Central China as of December 31, 2013:

	<u>Henan</u>	<u>Anhui</u>	<u>Hubei</u>	<u>Hunan</u>	<u>Shanxi</u>	<u>Jiangxi</u>	<u>China</u>
Securitization ratio . . . . .	13.7%	24.5%	20.3%	16.2%	28.8%	12.5%	42.1%
Number of domestically-listed companies . . . . .	65	80	86	71	34	33	2,489

*Source: Wind Info*

#### *Debt financing*

Benefiting from the increased level of direct debt financing and continued reforms in the bond market, the amount of debt financing in Henan underwritten by securities firms has achieved rapid growth from RMB7.7 billion in 2009 to RMB41.5 billion in 2013, representing a CAGR of 52.4%. The following table sets forth the amount of debt financing in Henan underwritten by securities firms for the years indicated:

<u>Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>CAGR</u>
Debt financing underwritten by securities firms (RMB in billions). . . . .	7.7	3.8	12.0	20.4	41.5	52.4%

*Source: Wind Info*



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## INDUSTRY OVERVIEW

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Despite the rapid development of the debt financing market in Henan, the amount of debt financing in Henan underwritten by securities firms only accounted for 1.3% of its GDP, behind the national average of 2.0% and ranking fourth among the six provinces in Central China. This indicates the development potential of the debt financing market in Henan.

### *Financial advisory*

Supported by increased industry consolidation, the total value of completed M&A transactions increased from RMB4.0 billion in 2009 to RMB7.9 billion in 2013, representing a CAGR of 18.4%.

Henan government authorities placed strong emphasis on promoting strategic integration of key SOEs, resulting in an active M&A market. For example, in July 2011, Zhongyuan Publish Media Investment Holding Group Co., Ltd. went public through a backdoor listing from “\*ST Xin’an”; and, in September 2013, Henan Coal Chemical Industry Group Co., Ltd. acquired Yima Coal Industry Group Co., Ltd. Well known private companies in Henan, such as Shuanghui Group, are also improving their overall competitiveness and market influence through M&As in China and overseas. Henan has significant potential for M&A and restructuring activities, which would benefit the financial advisory business of securities firms.

### *SME investment banking*

As of September 30, 2013, Henan had 397,400 SMEs, which generated a total revenue of RMB3,828.6 billion and total profit of RMB382.0 billion for the nine months ended September 30, 2013. SMEs in Henan benefit from the industrial migrations from coastal regions in southeastern China to Henan. We believe the increased demand from SMEs for equity and debt financing, such as share transfer through the NEEQ and issuance of SME private bonds, as well as M&As will contribute to the development of investment banking business.

Central China Securities ranked first in Henan in terms of the total amount of equity financing underwritten from 2012 to 2013, representing 46.5% of the total amount of equity financing in Henan for the two years. Central China Securities ranked first and second in Henan in terms of the total amount of debt financing underwritten in 2012 and 2013, respectively. We believe that securities firms with proven track records, strong brand recognition, a deep insight into the local market and sound relationships with local government and corporations can maintain competitive advantages and capture the potential opportunities in the investment banking business.

### **Asset Management**

As a result of the rapid growth of individual wealth, the securities industry will gradually move into a new stage of growth focusing on wealth management, and securities firms will provide more diversified financial products and consulting services for investors.

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## INDUSTRY OVERVIEW

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According to the 2013 Hurun Wealth Report, there were 18,700 high-net-worth individuals and 1,300 individuals with assets over RMB100.0 million in Henan as of December 31, 2012, both numbers ranked first among the six provinces in Central China, and increased at a rate of 8.1% and 8.3%, respectively, in 2012, the highest growth rates among the six provinces in Central China. Given the large number of high-net-worth individuals and rapid rate of urbanization, Henan's asset management market is expected to expand.

### Competitive Landscape

There are 115 securities firms in China. The PRC securities industry is highly regulated and PRC securities firms are subject to extensive regulatory requirements from various perspectives, including business licenses, scope of products and services and Net Capital. Competition in the securities industry in China has been and is likely to remain intense. In 2012, in terms of revenue and profit, the top ten securities firms in China controlled an aggregate of 42.5% and 56.6% of the total market share in China, respectively.

According to the SAC, in 2012, Central China Securities ranked 39th and 36th among all 115 PRC securities firms in terms of net revenue from the securities brokerage and underwriting and sponsorship businesses, respectively, representing 0.8% and 0.7%, respectively, of the total market share in China. In 2012, our Company's profit (under PRC GAAP) ranked 36th among PRC securities firms, according to the SAC, representing 0.6% of the total market share in China.

As of December 31, 2013, there were 52 PRC securities firms with a business presence in Henan, and the top ten securities firms with securities brokerage business in Henan commanded 83.1% of market share in terms of revenue generated by securities branches in Henan. In 2013, Central China Securities ranked first in Henan in terms of the revenue from securities branches in Henan, representing 28.9% of the local market share. The following table sets forth the top ten securities firms with a business presence in Henan in 2013:

<u>Ranking</u>	<u>Firm name</u>	<u>Market share</u>
		%
1	Central China Securities Co., Ltd.	28.9%
2	Minsheng Securities Co., Ltd.	15.3
3	Donghai Securities Co., Ltd.	8.9
4	Guotai Junan Securities Co., Ltd.	7.0
5	New Times Securities Co., Ltd.	5.4
6	China Investment Securities Co., Ltd.	5.0
7	China Galaxy Securities Co., Ltd.	4.9
8	Haitong Securities Co., Ltd.	3.6
9	Founder Securities Co., Ltd.	2.1
10	Zhong Cheng Securities Brokerage Co., Ltd.	2.0
	<b>Total</b>	<b>83.1%</b>

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Source: The Securities and Futures Association of Henan

### DEVELOPMENT TRENDS OF THE PRC SECURITIES INDUSTRY

With the ongoing amendments to the PRC securities law, the development of multi-tiered capital markets and the increasing proportion of direct financing, we believe the PRC securities industry has considerable growth prospects. A few examples will further illustrate this point.

***Emerging Internet-based securities services:*** PRC securities firms are actively developing various Internet-based securities services, such as online account opening, brokerage, sale of wealth management products and financing, to expand customer reach beyond the physical boundaries of their securities branches and to lower operating costs. We believe this trend will help promote securities firms' customer service capabilities, increase their business efficiency and facilitate product innovation.

***Accelerated product innovation:*** China's capital markets provide limited financial products and services. The CSRC seeks to encourage securities firms to develop and offer more financial products, such as market making, individual stock options, structured products, asset-backed securities and interest swaps, which we believe will improve the business and profit models of PRC securities firms.

***Rapid development of capital-based intermediary businesses:*** Owing primarily to the deregulation in the financial industry, PRC securities firms have provided more capital-based intermediary services, including margin financing and securities lending, securities-backed lending and securities repurchases. As capital requirements on securities firms become more relaxed, PRC securities firms are expected to increase their leverage ratio by expanding financing channels.

***Differentiated business strategies:*** China's securities firms have been affected by intense competition due to similar business models and product and service offerings. However, as the securities industry matures, securities firms are gradually developing a business model centered on differentiated and value-added services. We believe regional securities firms are more likely to leverage local resources and advantages to form unique business models and competitive strengths.

***Gradual rise in the securitization ratio:*** China's securitization ratio increased from 33.1% in 2004 to 42.1% in 2013, far behind the securitization ratio of 143.1% in the U.S. in 2013. With further economic growth, advancement of urbanization and increase in social wealth, we believe China's securitization ratio will rise continuously.

***Acceleration in opening China's capital markets:*** The CSRC and the SFC have approved the establishment of mutual stock access between the Shanghai Stock Exchange and the Hong Kong Stock Exchange (Shanghai-Hong Kong Stock Connect). Shanghai-Hong Kong Stock Connect is an important step in the opening of China's capital markets and is expected to enhance capital market connectivity between Mainland China and Hong Kong, deepen cooperation and communication between the stock markets in Shanghai and Hong Kong, and expand cross-border investment channels. Benefiting from this, the cross-border business in the PRC securities industry is expected to further expand. Given that the Shanghai-Hong Kong Stock Connect is still at a preliminary stage, we do not have any immediate business plans in response to this industry trend.

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## REGULATORY ENVIRONMENT

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### REGULATORY ENVIRONMENT OF THE PRC

#### Overview

The Company is a domestic non-bank financial institution in China, as a securities company, it is subject to the supervision and regulation of the CSRC and other relevant authorities. Our securities business, futures brokerage business, direct investment business and fund business are subject to the applicable regulations of China in the areas of industry entry, business regulation, corporate governance and risk control. Moreover, our operations are also subject to other regulations of China in general, including laws, regulations, rules and other statutory documents in respect of foreign exchange control, anti-money laundering and taxation.

#### Major Regulatory Authorities

The operation of our Group is subject to the rules and regulations of the following Chinese government authorities:

#### *CSRC*

The CSRC is responsible for supervision and management of the securities and future market of the PRC and for maintaining the order thereof, and to secure their lawful operations in accordance with the laws, regulations and the authorities of the State Council. It sets up 36 regional bureaus throughout the country in provinces, autonomous regions, municipalities, and cities under separate state planning, as well as offices for securities regulation in Shanghai and Shenzhen. According to the Securities Law of the People's Republic of China (《證券法》) (last amended on June 29, 2013 with immediate effect) and the Futures Trading Management Regulations (《期貨交易管理條例》) (last amended on October 24, 2012 and made effective from December 1, 2012), main duties of the CSRC include:

- To enact regulations and rules in relation to the supervision and management of the securities and futures markets, and to exercise the right of examination, approval or verification according to law;
- To supervise and manage the issuance, listing, trading, registration, deposit and settlement of securities and the listing, trading, settlement, delivery of futures and related activities according to law;
- To supervise and manage the securities business activities of the securities issuers, listing companies, securities companies, securities investment fund management companies, securities services organizations, stock exchanges and securities registration and settlement organizations according to law; and to supervise and manage futures business activities of market-related participants, including the futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository regulating institutions, futures margin depository bank, delivery warehouse and so forth;

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- To enact qualification standards and practice codes for securities business personnel and futures practitioners according to law, and to supervise their implementation;
- To supervise the disclosure of information in relation to the issuance, listing and trading of securities and information of futures trading according to law;
- To regulate and supervise the activities of the SAC according to law;
- To investigate and punish activities in violation of laws and administrative regulations in relation to the securities and futures markets according to law; and
- To perform other duties stipulated in the applicable laws and administrative rules.

### *The Securities Association of China (SAC)*

The SAC is a self-regulatory organization of the securities industry established under the relevant regulations of the Securities Law and the Society Groups Registration and Management Regulations (《社會團體登記管理條例》) (which was effective from October 25, 1998). It is a non-profit society group and a legal entity, and is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC. The SAC regulates the securities industry through a general meeting of members, which are primarily the securities companies. Its main duties are as follows:

- To educate and advise its members to comply with the securities laws and administrative rules;
- To protect the lawful rights and interest of its members and forward their proposals and requests to the securities supervision and management authorities;
- To compile information of securities activities for members' reference;
- To formulate the rules of the SAC for compliance by members and to organize training programs and seminars for futures practitioners and its members;
- To mediate disputes arising from securities business between members or between members and their clients;
- To organize for its members the study of development, operation and other matters of the securities industry;
- To monitor and investigate the conduct of members and take disciplinary actions against them for violation of laws, administrative rules or its articles of association in accordance with relevant provisions; and
- To perform other duties stipulated in the articles of association of the SAC.

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### *China Futures Association (CFA)*

The CFA is a self-regulatory organization of the futures industry and is a non-profit legal entity. The CFA is subject to the guidance and management of the CSRC and the state administrative authority for registration of social organizations. The CFA performs the following duties pursuant to the Futures Trading Management Regulations (《期貨交易管理條例》):

- To educate and procure its members and futures practitioners to observe the laws, regulations and policies in relation to futures;
- To formulate self-regulatory rules binding on its members, to supervise and examine the conduct of its members and to take disciplinary actions against the violation of its articles of association and self-regulatory rules in accordance with relevant provisions;
- To accredit, manage and de-register the qualifications of futures practitioners;
- To formulate codes of conduct and business rules for the futures industry;
- To deal with complaints in relation to the futures business and to mediate disputes between members or between members and their clients;
- To protect the legal interests of its members and forward their proposals and requests to the futures supervision and management authorities of the State Council;
- To organize professional training and seminars for futures practitioners;
- To organize for its members the study of development, operation and other matters of the futures industry; and
- To perform other duties stipulated in the articles of association of the CFA.

### *Asset Management Association of China (AMAC)*

The Asset Management Association is a self-regulatory organization of the securities investment fund industry and is a legal entity. Its main duties are as follows:

- To educate and encourage its members to comply with the laws and administrative rules governing securities investment and protect the lawful rights and interests of investors;
- To protect the lawful rights and interest of its members and to submit their proposals and requests;
- To formulate and implement self-regulatory rules, to supervise and examine the practices of its members and their practitioners and to take disciplinary actions against the violation of the self-regulatory rules and its articles of association in accordance with relevant provisions;

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- To formulate practice standards and business rules and to organize the qualifying examinations, qualification management and professional training for fund practitioners;
- To provide membership services, organize seminars, promote innovation and launch propaganda and investor education activities within the industry;
- To mediate disputes arising from fund business between members or between members and their clients;
- To handle the registration and recording of non-publicly offered funds in accordance with the law; and
- To perform other duties stipulated in the articles of association of the AMAC.

### *Stock Exchange*

Under the Securities Law, a stock exchange is a self-regulatory legal entity which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. According to the Securities Law and the Measures for the Administration of Stock Exchange (《證券交易所管理辦法》), which was made effective from December 12, 2001, the main duties of a stock exchange are as follows:

- To provide venues and facilities for the trading of securities;
- To formulate stock exchange rules;
- To accept applications for, and to arrange, the listing of securities;
- To organize and supervise the trading of securities;
- To supervise its members;
- To supervise the listed companies;
- To establish securities registration and settlement facilities;
- To manage and disclose market information;
- To handle suspension of listing, resumption of listing and delisting of shares and corporate bonds;
- To adopt remedial measures in case of emergency, including technical suspension and temporary suspension of trading; and
- To perform other duties permitted by the CSRC.



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### *Futures Exchange*

Under the Futures Trading Management Regulations (《期貨交易管理條例》), a futures exchange is a place for purchasing and selling futures contracts and futures options contracts and a non-profit and self-regulatory legal entity governed by its articles of association. The main duties of a futures exchange are as follows:

- To provide venues, facilities and services for trading;
- To standardize the contracts and to arrange the listing of the contracts;
- To organize and supervise the trading, clearing and settlement of futures;
- To provide centralized guarantees for contract performance in futures trading;
- To supervise its members in accordance with its articles of association and trading rules; and
- To perform other duties as specified by the futures supervision and management authorities of the State Council.

According to the Measures for the Administration of the Futures Exchange (期貨交易所管理辦法), which was effective from April 15, 2007, a futures exchange shall also fulfill the duties as follows:

- To enact and implement the trading rules and implementing regulations of the futures exchange;
- To announce market information;
- To regulate members and their clients, specified settlement houses, futures margin depository banks and the futures businesses of other participants in the futures market; and
- To investigate and punish irregularities.

### **Other Industry Self-regulatory Authorities**

Other industry self-regulatory authorities primarily include China Securities Depository and Clearing Corporation Limited, China Securities Investor Protection Fund Corporation Limited, China Futures Margin Monitoring Center Co., Ltd. and China Securities Finance Corporation Limited.

### Industry Entry Requirements

#### *Industry Entry Requirements for Securities Companies*

##### *(1) Establishment*

The Securities Law and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) stipulate the authorized scope of business of securities companies and establish standards required for entry into the industry and other requirements. Establishment of securities companies is approved by the CSRC and the business license can be obtained subject to the following conditions:

- Its articles of association shall comply with the laws and administrative rules of China;
- 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 shall be RMB50.0 million; for companies operating one of the securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB100.0 million; for companies operating two or more of the securities underwriting and sponsorship, proprietary securities trading, securities asset management and other security businesses, the minimum registered capital shall be RMB500.0 million;
- Its directors, supervisors and senior management should possess the required qualifications while other personnel involved in the securities business should possess proper professional qualifications, and no less than three of the 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 a proper premises and facilities for operation; and
- Other conditions stipulated by laws, administrative rules and the CSRC.

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》), the same unit or individual, or multiple units or individuals who are controlled by the same unit or individual, shall not hold controlling interests and equity interests in more than two securities companies and shall not hold controlling interests in more than one securities company.

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### *Rules for Establishment of Foreign-invested Securities Companies*

A foreign-invested securities company is subject to the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) (the “CSRC Rules”) which stipulate:

- The aggregate direct holdings and/or indirect control by foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%.
- Foreign investors who lawfully hold 5% or more of the shares in a listed domestically-funded securities company through securities trading on a security exchange or who jointly hold 5% or more of the shares in a listed domestically-funded securities company with others by agreement and other arrangement shall have to be approved by the State Councils Securities Regulatory Authorities.
- The direct holdings and/or indirect control in the equity interest of a foreign investor in a listed domestically-funded securities company shall not exceed 20%. The aggregate of direct holdings and/or indirect control in the equity interest of a listed domestically-funded securities company, by all foreign investors shall not exceed 25%.

As advised by our PRC legal advisors, Beijing Junzhi Law Offices, based on a relevant CSRC document and further communications with the relevant departments of the CSRC, the 25% restriction on the aggregate foreign investors’ shareholdings under Article 25(3) of the CSRC Rules is only applicable to the situations where foreign investors directly hold or indirectly control the equity interest of a listed domestically-funded securities company. In our case, where foreign investors Bank of China Group Investment Limited and BOC International Holdings Limited through Bohai Fund Management (on behalf of Bohai Fund) indirectly hold the equity interest in our Company, this does not constitute direct holding or indirect control of equity interest in our Company, and hence does not have to be calculated within the 25% restriction. We are allowed to offer the H Shares constituting 25% of our registered share capital based on the relevant requirements. As further advised by our PRC legal advisor, CSRC is the competent governmental department responsible for interpreting the CSRC Rules, and the above interpretation of the CSRC Rules does not violate any applicable PRC laws and regulations. Therefore, our PRC legal advisor has advised that the issuance of 598,100,000 H Shares under the Global Offering and the conversion of 59,810,000 state-owned Shares transferred to NSSF by our state-owned Shareholders (resulting in an aggregate 657,910,000 H Shares, which represent 25.0% of our total registered capital upon completion of the Global Offering) complies with the requirements of the CSRC Rules and other applicable PRC laws and regulations.

In addition, according to the Guidelines on Administrative Approval for Securities Companies No.10 – Increase and Change in Equity Interest of Securities Companies (《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》) promulgated on September 19, 2010, if an enterprise that is directly or indirectly owned by a foreign investor, invests in a securities company, the equity interest of the foreign investor in the securities company should not be more than 5%.

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### (2) *Business Scopes*

According to the Securities Law, a securities company cannot engage in any of the following businesses without the approval by the CSRC:

- Securities brokerage;
- Securities investment consultation;
- Financial advisory in relation to securities trading and securities investment activities;
- Securities underwriting and sponsorship;
- Proprietary securities;
- Securities asset management; and
- Other securities businesses.

According to the Tentative Provisions for the Examination and Approval of the Scope of Business of Securities Companies (《證券公司業務範圍審批暫行規定》), securities companies which are under common control of the same entity or individual control or mutual control of each other shall not engage in the same business, unless the relevant companies adopt effective measures to clearly define their respective operating regions or target clients and there shall be no competition between the companies. Unless otherwise provided for by the CSRC, the scope of business of the securities company upon its establishment is subject to the approval of the CSRC in accordance with the statutory provisions and no more than four types of business of such company shall be approved. The securities company shall obtain approval from the CSRC for any change in the scope of business, however, the number of additional types of business applied for shall not exceed two. Subject to the approval by the CSRC, a securities company may operate the business not clearly stated in the Securities Law, the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the rules and regulations of the CSRC.

### (3) *Material Changes*

According to the requirements of the Securities Law and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》), approval from the State Council's Securities regulatory authorities shall be obtained for the establishment, acquisition or de-registration of a branch under a securities company, change of the scope of business, increase in the registered capital and material adjustment to the equity structure, decrease in the registered capital, change of any shareholder holding of more than 5% of the shares or the *de facto* controller, change of important provisions of the articles of association of the company, any merger, division, cessation, dissolution and bankruptcy, or the establishment, acquisition or equity participation in securities institutions by securities companies or other material changes.

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The CSRC has gradually authorized its local branches to review and approve some kind of applications for material changes by securities companies. In October 2012, according to the Decision of the State Council in Relation to the Cancellation 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》) made effective from September 23, 2012, the authority of reviewing and approving the following material changes of securities companies was formally entrusted with the CSRC's local branches:

- Change of important provisions of the articles of association of the company;
- Establishment, acquisition or de-registration of a branch;
- Some items regarding change of the registered capital, including the review and approval of the qualification of shareholders or the *de facto* controller, or the change of *de facto* controller, controlling shareholder or the shareholder with the largest shareholding of an unlisted securities company in connection with an increase in its registered capital, and approval of a decrease of registered capital by an unlisted securities company;
- A change of shareholder(s) with more than 5% of shareholdings and *de facto* controller of an unlisted securities company; and
- Increase or 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 assets management and securities underwriting.

According to the Decision of the State Council on Cancellation and Decentralization of Certain Administrative Examination and Approval Items (《國務院關於取消和下放一批行政審批項目的決定》) (issued on January 28, 2014 and made effective immediately), CSRC cancelled three items necessary for administrative approval: approval of subordinated debt lent by securities companies, approval of the annual foreign exchange risk exposure for licensed overseas futures companies, and approval of special investment of securities companies.

#### *(4) Establishment of Subsidiaries, Branches and Securities Operation Units*

According to the Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Companies (《證券公司設立子公司試行規定》), subject to the approval of the CSRC, securities companies may establish wholly owned subsidiaries and invest jointly in the establishment of subsidiaries with other investors who meet the requirements for shareholders of securities companies stipulated in the Securities Law. A securities company and its subsidiaries, or subsidiaries under the control of the same securities company shall not operate similar businesses which involve conflict of interest or competition.

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The Regulatory Requirements on Branches of Securities Companies (《證券公司分支機構監管規定》) provide that branches shall refer to branches and Securities Operation Units established by the securities companies in the PRC for business operation. Approval from securities regulatory bureaus authorized by the CSRC must be obtained for the establishment, acquisition and de-registration of branches of securities companies. Application documents for the establishment and acquisition of branches by the securities companies shall be submitted to the securities regulatory bureaus where the securities companies are located. Application documents for de-registration of branches shall be submitted to the securities regulatory bureaus where the branches are located. According to the Regulatory Requirements on Branches of Securities Companies (《證券公司分支機構監管規定》), securities companies shall meet the following requirements in order to establish branches: have a sound governance structure and effective internal management, have the capacity to control the risks of their existing branches and branches to be established, have risk control indicators in compliance with relevant rules for the most recent year and those indicators will remain compliant after the additional branches are established, not be subject to administrative or criminal penalties for any material breach of rules or regulations for the most recent two years, have no material regulatory measures imposed for the most recent year, no current investigation for any branch-related activities based on any alleged material breach of rules or regulations, have a secure and stable information technology system, no material information technology accident having occurred during the most recent year and existing branches are under good management.

### *Entry Requirements for Futures Companies*

#### *(1) Establishment*

The Futures Trading Management Regulations (《期貨交易管理條例》) and the Administrative Measures for Futures Companies (《期貨公司管理辦法》) set out the industry entry standards for futures companies. Establishment of futures companies shall be approved by the CSRC subject to the following conditions:

- The minimum registered capital is RMB30 million;
- Directors, supervisors and senior management shall be qualified for their positions while practitioners shall have futures practice qualifications; the number of staff with futures practice qualifications shall not be less than 15; the number of senior management staff with practice qualifications shall not be less than three;
- The articles of association of the company shall comply with the requirements of laws and administrative rules;
- Major shareholders and the *de facto* controller shall have sustained profitability, good reputation, and shall not have a record of material violation of law or regulation in the last three years;
- Premises and operation facilities shall be up to standard;

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- Risk management and internal control systems shall be satisfactory; and
- Other conditions as stipulated by the CSRC.

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》), which was made 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.

### *(2) Establishment of Operation Branches*

According to the Administrative Measures for Futures Companies (《期貨公司管理辦法》) and the Administrative Regulations for Operation Branches of Futures Companies (Provisional) (《期貨營業部管理規定(試行)》) made effective from May 1, 2012 in addition to the Regulations on the Relevant Issues on Further Regulating the Establishment of Operation Branches of Futures Companies (《關於進一步規範期貨營業部設立有關問題的規定》) made effective from February 20, 2013, if a futures company applies for the establishment of an operation branch, it shall comply with relevant conditions and submit an application to the branch of the CSRC at the place where the proposed branch is to be established.

### ***Market Entry Requirements for Direct Investment Company***

#### *(1) Establishment*

According to the Guidelines on Pilot Scheme for the Direct Investment Business of Securities Companies (《證券公司直接投資業務試點指引》) announced by the CSRC on April 30, 2009, a securities company will meet the following requirements in order to establish a direct investment subsidiary:

- Obtain approval from the CSRC;
- A relatively strong capital base and risk management strategy under a sound Net Capital replenishment system. Categorized as “Group B of Grade B” or above in the latest classification and evaluation, and the Net Capital in each of the last 12 months is not less than RMB1.5 billion;
- A sound corporate governance structure, a comprehensive and effective internal control system, good risk control mechanisms and a compliance management system to avoid the transfer of risks and conflict of interests with the direct investment subsidiary; and
- Risk control indicators in compliance with relevant rules for the most recent year and those indicators including Net Capital will remain compliant after the direct investment subsidiary has been established.



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### *(2) Scope of Business*

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), a direct investment subsidiary is restricted to engage in the following business:

- Investment in the shareholdings of enterprises, or investment in debts, or in other investment funds associated with equity and debt investment with its own funds or via establishment of direct investment funds;
- Provision of financial advisory services on equity investment and debt investment to clients; and
- Other businesses as accepted by the CSRC.

### *Market entry requirements for fund companies*

#### *(1) Establishment*

According to the Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》), the establishment of a securities investment fund management company shall be subject to the following requirements:

- Its shareholders shall meet the requirements of the Securities Investment Funds Law (《證券投資基金法》) and these Measures;
- Its articles of association shall comply with the Securities Investment Funds Law (《證券投資基金法》), the Company Law (《公司法》) 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 relevant 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 the 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 facilities and other business-related facilities in compliance with relevant requirements;
- Its subordinate departments and working positions shall have reasonable division of labor and well-defined powers and duties;

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- 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.

### *(2) Establishment of subsidiaries and branches by fund companies*

In accordance with the Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》) and the Interim Provisions on the Administration of Subsidiaries of Securities Investment Fund Management Companies (《證券投資基金管理公司子公司管理暫行規定》), a securities investment fund management company shall, upon satisfaction of relevant requirements, apply to the CSRC for the establishment of subsidiaries or branches.

### **Regulation on Operations of Securities Companies**

The securities and related business we mainly engage in includes, but is not limited to, securities brokerage, securities underwriting and sponsorship, securities proprietary trading, securities asset management, margin financing and securities lending, securities investment consulting, futures brokerage and asset management of futures companies, stock index futures, futures intermediary business, agency sale of financial product, securities investment fund distribution, direct investment, securities investment fund.

### ***Securities Brokerage***

According to the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) 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》) (made effective from May 1, 2010):

- A securities company shall establish and improve its management system of the securities brokerage business;
- Where a securities company is engaged in the securities brokerage business, it shall objectively indicate its business qualification, service responsibility and scope, etc.;
- A securities company shall establish and improve the client management system and client service system of the securities brokerage business, also, strengthen the education of investors and protect the legitimate rights and interests of clients;
- A securities company shall establish and improve the management system and rational performance appraisal system for securities brokers to regularize their behavior;
- A securities company shall establish and improve the management system for its securities business department to ensure a law-abiding, stable and safe operation for the business department;

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- A securities company shall establish and manage the information systems such as client account management, client deposits management, proxy trading, proxy clearing and settlement, securities depository, transaction risk monitoring and the central storage of the above business data;
- If an employee or a practitioner at the business department of a securities company violated laws, administrative regulations, provisions stipulated by 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; and
- If a securities company or a securities business department violates the Provisions, the CSRC and its resident agencies will take measures such as regulatory interview, issuance of caution letter, temporarily suspending license-related approvals, punishment of related personnel, suspending approval of new businesses, limiting business activities and other regulatory measures. Any violation of laws and regulations will be punished in accordance with law. If a crime was committed during the event, the company or department will be transferred to the proper judicial organization for prosecution.

### *Securities Underwriting and Sponsoring*

According to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》), securities companies shall apply for the sponsoring institution qualification from the CSRC in accordance with the regulations, so as to engage in listing and sponsoring business. Sponsoring institutions shall designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties, so as to discharge sponsorship responsibilities. Issuers shall employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters: initial public offering and listing, issuance of new shares and convertible corporate bonds by listing companies and other conditions identified by the CSRC.

Any securities company applying for the sponsoring institution qualification from the CSRC shall be subject to the following requirements:

- Its registered capital shall be no less than RMB100 million and net capital not less than RMB50 million;
- It shall have a system of corporate governance and internal control, the indicators of risk control shall be in line with relevant regulations;
- Its sponsor business sector shall have a sound mechanism consists of business procedures, risk assessment and internal control, its internal structure shall be logical, also, proper research capabilities and marketing capabilities is needed to provide necessary support;

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- It shall have a fine sponsor business team, with reasonable professional structure, the number of professionals shall not be less than 35, among which, the number of personnel have been engaging in sponsor-related businesses in the last three years shall not less than 20;
- The number of its professionals who meet the qualifications of sponsor representative shall not be less than 4;
- Over the last three years, entity has not received any administrative penalties due to major violation of laws and regulations;
- It shall meet all other requirements of the CSRC.

The Management Measures on Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) (last amended on March 21, 2014 with immediate effect) regulates the issuance of shares or convertible bonds in China by issuers, or underwriting of securities in China by the securities companies in various aspects including the quotation and pricing, sale of securities, underwriting of securities, and information disclosure. The securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

The Guidance of CSRC on Further Promoting IPO Reform (《中國證監會關於進一步推進新股發行體制改革的意見》) (promulgated on November 30, 2013 with immediate effect) further clarified the independent responsibilities of securities service institutions and personnel such as issuers, sponsor institutions, accounting firms, law firms, and asset appraisers during the distribution process, which specified if major violations occurred in information disclosure of the issuers resulting in significant losses to investors, then issuers and intermediaries must compensate the investors' losses in accordance with law.

### ***Proprietary Securities Trading***

The Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the Guidelines on Proprietary Business of Securities Companies (《證券公司證券自營業務指引》) states that securities companies engaging in proprietary securities trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of the State Council. A securities company that engages in proprietary securities trading business shall be registered under the name of the proprietary securities account. The securities company shall conduct its proprietary trading business in its own name. Risk control indicators, 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 amount of a single security to the total amount of issued securities, shall comply with the requirements of the CSRC.

Establish and improve an investment decision-making and authorization mechanism with relative centralization and unification of rights and responsibilities. In principle, the decision-making framework of self-operated businesses shall be established on three progressive levels: self-operated business departments, investment decision-making organ, Board of Directors.

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## REGULATORY ENVIRONMENT

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The self-operated business department of securities companies is responsible for the management and operation of self-operated business, other business sectors and branches shall not develop self-operated business in any form.

### *Securities Asset Management*

In accordance with the Administrative Measures on Client Asset Management of Securities Companies (《證券公司客戶資產管理業務管理辦法》) (promulgated on June 26, 2013 with immediate effect), the Implementation Rules for the Targeted Asset Management Business of Securities Companies (《證券公司定向資產管理業務實施細則》) (promulgated on October 18, 2012 with immediate effect), the Implementation Rules of the Integrated Asset Management Business of Securities Companies (《證券公司集合資產管理業務實施細則》) (last amended on June 26, 2013 with immediate effect), and the Notice in relation to Strengthening Supervision on Asset Management Business of Securities Companies (《關於加強證券公司資產管理業務監管的通知》) (promulgated on March 14, 2013 with immediate effect), securities companies engaging in client asset management shall comply with relevant conditions and shall apply to the CSRC for approval. Securities companies may undertake targeted asset management businesses for individual clients, collective asset management businesses for multiple clients and special asset management businesses for selected clients.

The Administrative Measures on Asset Securitization of Securities Companies (《證券公司資產證券化業務管理規定》) (promulgated on March 15, 2013 with immediate effect) allows securities companies which are qualified for securities asset management to apply for establishing special projects and issuing asset-backed securities.

### *Margin Financing and Securities Lending*

According to the Management Measures on Margin Financing and Securities Lending of the Securities Companies (《證券公司融資融券業務管理辦法》) (last amended on October 26, 2011 with immediate effect), securities companies engaging in margin financing and securities lending businesses shall open accounts in their own name at securities registrars, such as a special securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities companies shall also open accounts at commercial banks, such as a special margin financing account and margin capital guarantee account. Securities companies shall, with reference to third-party custody of the clients' transaction settlement funds, enter into a margin custody agreement with their clients and commercial banks. The capital and securities provided by securities companies to their clients are limited to those in the special margin financing account and special securities lending account.

### *Securities Investment Consulting*

According to the Provisional Measures on Management of Investment Consultations on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》), a firm which engages in a securities investment consulting business shall obtain the necessary qualifications and a business licence from the CSRC. Practitioners of securities investment consulting shall obtain the relevant qualifications and provide securities investment consulting services under a qualified securities investment consulting institution.

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According to the Tentative Provisions on the Securities Investment Advisor Business (《證券投資顧問業務暫行規定》) (made effective from January 1, 2011), a securities company and its investment advisors shall provide securities investment advisory services in good faith and shall not jeopardize the interests of clients by acting in favor of the company and its associates, investment advisors and their related parties, or other specific clients.

The Interim Provisions on the Release of Securities Research Reports (《發佈證券研究報告暫行規定》) (made effective from January 1, 2011) stipulates that in issuing securities research reports, securities companies and securities investment advisory agencies shall abide by laws, administrative regulations and the Provisions, 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 be prohibited from disseminating false, untrue and misleading information, and from engaging in or participating in insider trading or securities market manipulation.

### ***Futures Brokerage and Asset Management of Futures Companies***

The Futures Trading Management Regulations (《期貨交易管理條例》) set out a licensing system that applies to the business of futures companies. The CSRC is responsible for the issuance of licenses according to the types of business of commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies may also apply to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC. Futures trading shall strictly comply with the deposits system. The futures company shall trade futures in its own name for its clients, who shall be solely liable to the transaction results.

### ***Stock Index Futures***

According to the Guidelines on Securities Companies Participating in Stock Index Futures and MOF Bonds Futures Trading (《證券公司參與股指期貨、國債期貨交易指引》) (promulgated on August 21, 2013 with immediate effect), securities companies engaging in stock index futures trading shall formulate relative systems, including investment decision procedures, investment purposes, investment scales and risk control, etc. Securities companies engaging in stock index futures trading shall have professionals who are familiar with stock index futures, sound risk control and internal control system, and an effective, dynamic risk monitoring system to ensure that the risks relating to engaging in stock index futures trading are measurable, controllable and tolerable.

### ***Provision of Futures Business (Provision of Intermediary Business to Futures Companies by Securities Companies)***

According to the Trial Measures Concerning Intermediary Introduction Business provided by Securities Companies to Futures Companies (《證券公司為期貨公司提供中間介紹業務試行辦法》), a securities company providing futures intermediary business to futures companies shall operate in a due and cautious manner through standardized departmental management of its



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futures intermediary business. A securities company may only accept the entrustment of its wholly owned or controlled futures company or a future company under the control of the same institution to provide the futures intermediary business. The securities company shall not accept the entrustment of other futures companies to carry out futures intermediary business.

### ***Agency Sale of Financial Product***

According to the Administrative Provisions on the Agency Sale of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》) (promulgated on November 12, 2012 with immediate effect), a securities company shall assess the eligibility of the client before promoting financial products. The information given on the financial products shall be comprehensive, fair and accurate. Staff of a securities company who conduct the agency sale of financial products shall have securities practice qualifications.

### ***Securities Investment Fund Distribution***

According to the Management Measures on Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》) (made effective from June 1, 2013), staff participating in the fund distribution business, such as promoters and maintenance technicians of information management platforms, shall obtain qualification of the fund distribution business. Fund distribution entities shall set up a comprehensive management system of fund holder accounts and capital accounts, an optimal system of fund depository and withdrawal procedures and authorization for fund holders, and a monitoring system for fund distribution.

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

Pursuant to the provisions of the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), Securities companies which engage in direct investment business shall establish a direct investment subsidiary in accordance with the requirements of relevant regulatory authorities, and shall conduct business in compliance with relevant PRC laws, rules and regulations as well as the requirements of the SAC. Securities companies shall not develop business in any other form. A direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy, etc. A direct investment subsidiary and its affiliates may also set up and manage direct investment funds including equity funds, venture capital funds, buyout funds, mezzanine funds, as well as other direct investment funds targeted at the aforesaid funds.

### ***Securities Investment Fund Business***

Pursuant to the Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》), fund management companies may, based on its needs for professional operation and management, establish subsidiaries, branches or other forms of operation units required by the CSRC. A subsidiary may conduct client-specific asset



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## REGULATORY ENVIRONMENT

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management, fund sales or other forms of businesses approved by the CSRC. Branches or other forms of operation units prescribed by the CSRC may conduct businesses in fund product development, fund sales or other businesses authorized by the fund management companies. Fund management companies shall establish a scientifically rational, strictly controlled and effectively operated internal control system; a sound internal control mechanism to ensure compliant and legal operation and a sound, effective internal control. In addition, fund management companies shall also set up an investment management system consisting of authorization, research, decision-making, implementation and assessment, so as to guarantee fair treatment to fund assets and client assets under management.

### **Corporate Governance and Risk Control**

#### *Corporate Governance and Risk Control of Securities Companies*

##### *(1) Corporate Governance*

Securities companies shall comply with the corporate governance requirements regarding the composition, operation, convening and voting procedures of shareholders' meetings, the board of directors and the supervisory committee as set out in the Company Law (《公司法》), the Securities Law (《證券法》), the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the Rules for Governance of Securities Companies (《證券公司治理準則》) (last amended on January 1, 2013 with immediate effect).

Securities companies should establish and improve their corporate governance structure. The corporate governance structure of securities companies includes scientific decision-making processes and rules of procedures, a highly efficient and rigorous business operating system, a sound and effective internal control and feedback system, and effective incentive and restraint mechanisms. The Boards of Supervisors and independent directors of securities companies should fully exercise their supervising functions to avert the risks of manipulation by substantial shareholders or control by insiders.

A securities company that engages in two or more businesses in securities brokerage, asset management, margin financing and securities lending, securities underwriting and sponsoring shall have a remuneration and nomination committee, an audit committee and a risk control committee under its board of directors to perform the duties and exercise the rights as specified in the articles of association of the company. The persons 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》) (last amended on December 19, 2012 with immediate effect), specify the regulations on the qualifications of directors, supervisors and senior management. Each shall obtain approval from the securities regulatory authorities to hold the post before taking office.

##### *(2) Risk Control*

Pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) (last amended on June 24, 2008 and effective from December 1, 2008), a securities company shall prepare financial statements of its Net

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## REGULATORY ENVIRONMENT

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Capital and reserve of risk capital and risk control indicators, along with the calculation of the Net Capital and provisions of risk capital. The Measures for Risk Control Indicators stipulates a warning ratio and a minimum regulatory ratio for risk control indicators that securities companies are required to comply with. The CSRC may make appropriate adjustments to the standards for risk control indicators and the ratio of risk capital reserves of a particular business according to the governance structure, the internal control and risk control of the securities companies.

In accordance with the Norms for the All-rounded Risk Management of Securities Companies (《證券公司全面風險管理規範》) (effective from March 1, 2014), securities companies shall implement all-rounded risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risk and operating risks, and shall establish and improve an all-rounded risk management system that is in line with their development strategies, including workable management rules, a sound organizational framework, a reliable information technology system, a quantitative risk indicators system, a team of professionals, an effective risk response mechanism and an advanced risk management culture.

In accordance with the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》) (effective from March 1, 2014), securities companies shall strengthen liquidity risk management and establish a sound liquidity risk management system for effective identification, measurement, monitoring and control of liquidity risks.

### *(3) Classified Regulation*

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》) (made effective from May 14, 2010), the CSRC classifies the securities companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the evaluation results of risk control capability, competitiveness and compliance of securities companies in China. According to the principle of classified regulation, the CSRC sets up different standards on risk-control indicators and calculating proportions for different types of securities companies, and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.

### ***Corporate Governance and Risk Control of Futures Companies***

#### *(1) Corporate Governance*

The Administrative Measures for Futures Companies (《期貨公司管理辦法》) provides that the CSRC implements the qualification management system on the directors, supervisors, senior management and other futures practitioners of the 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 have independent operations and accounting; futures companies with the qualification for clearing business of a futures exchange under the membership classification and clearing system and wholly owned futures companies, etc., shall have independent directors; a futures company shall have a board of supervisors or supervisors, and a chief risk officer as well.

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## REGULATORY ENVIRONMENT

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### *(2) Risk Control*

According to the Futures Trading Management Regulations (《期貨交易管理條例》), a futures company engaging in futures brokerage and other futures business shall strictly implement the systems for separation of business and capital; mixed operations are prohibited. The CSRC formulated regulations on the risk regulatory indicators such as the proportion of Net Capital to net assets, the proportion of Net Capital to the business scale of domestic futures brokerage and overseas futures brokerage, and the ratio of current assets and current liabilities of the futures companies. The CSRC also set out requirements on the operating conditions, risk management, internal control, depositories, related party transactions of the futures companies and their branches.

### **Other Regulations**

#### *Exchange Control*

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not 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 Regulations on the Foreign Exchange System of the People's Republic of China (《中華人民共和國外匯管理條例》) last amended by the State Council on August 5, 2008 with immediate effect, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to approval from the SAFE, while capital account items are.

According to the Regulations on the Foreign Exchange System of the People's Republic of China, current account foreign exchange income 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, and where any foreign exchange income on capital account is to be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, an approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions. 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, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises which need foreign exchange 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 exchange, may on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, and with the submission of other required supporting documents, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks. Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or the relevant branch.

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## REGULATORY ENVIRONMENT

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On January 28, 2013, SAFE issued the Notice on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (關於境外上市外匯管理有關問題的通知), which was made effective on the day of issuance. The Notice provides that:

- SAFE and its branch (Foreign Exchange Bureau) conduct supervision, administration and inspection of transactions such as business registration, opening accounts and applications, cross-border payments and exchange of funds that are linked to overseas listings of domestic enterprises.
- A domestic issuer shall, within 15 working days after the completion of the initial offering of shares for its overseas listing, register an overseas listing with the Foreign Exchange Bureau at the place of its incorporation. A domestic issuer shall present his certificate of overseas listing issued by the Foreign Exchange Bureau to deal with businesses related to overseas listing.
- The proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of this prospectus or other disclosure documents, such as the corporate bonds prospectus, shareholder circulars and the resolution of shareholders' meeting. If the funds raised through the issuance of corporate bonds that can be converted into shares are intended to be remitted into the PRC, they shall be remitted to the special account for external debts and used in accordance with relevant regulations in the external debt management; if the funds raised through the issuance of other forms of securities are intended to be remitted into the PRC, they shall be remitted to the corresponding special domestic account for overseas listing.
- A domestic issuer may use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to repurchase overseas shares. Where the issuer chooses to remit funds out of the PRC to repurchase overseas shares, it may, by presenting the certificate of overseas listing containing relevant repurchase information, adhering to necessary formalities with a bank to transfer funds into a special domestic account for repurchase and remit the funds overseas. Upon completion of the repurchase, any surplus in the funds remitted overseas for such repurchase shall be transferred back to the special domestic account of repurchase.
- A domestic shareholder may, in accordance with applicable regulations, use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to increase his/her holding of overseas shares in a domestic company. Where the shareholder chooses to remit funds out of the PRC to increase his/her shareholding, he/she may, by presenting his/her overseas shareholding registration certificate, go through necessary formalities with a bank to transfer funds into his/her special domestic account for shareholding increase and remit the funds overseas. Upon completion of the shareholding increase, any surplus in the funds remitted overseas for such increase shall be transferred back to the said special account.
- Income on the capital account item from decrease in holding or transfer of overseas shares of a domestic company by domestic shareholders or overseas securities exchange exit by domestic companies shall be remitted to its special domestic account for shareholding decrease within two years after the date of receiving such income.

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## REGULATORY ENVIRONMENT

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The Provisions on Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors (《合格境外機構投資者境內證券投資外匯管理規定》), last amended on December 7, 2012 with immediate effect, provide that the Chinese government shall adopt a quota management system on the investments in domestic securities by the qualified foreign investors. SAFE approves the investment quota of the individual qualified investors and such quota may be adjusted. A qualified investor is not allowed to apply for a further increase in the investment quota within one year after approval of the investment quota.

### *Information Disclosure*

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》) sets forth the requirements on the information disclosure by securities companies, including ways to disclose information.

Provisions 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》) last amended by the CSRC on June 30, 2010 with immediate effect to further regulate the information disclosure of regular reports and *ad hoc* reports by listed securities companies and require listed companies to establish a sound information management system in accordance with the characteristics of the securities industry in China, their practices and general regulations regarding information disclosure by listed companies.

### *Anti-money Laundering*

Securities companies 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》), the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》), promulgated by the PBOC and made effective from January 1, 2007, and the Measures on Administration of Identification of Clients and Preservation of Client Identities 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》), jointly promulgated by the PBOC, the CBRC, the CSRC and the CIRC and were made effective from 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》), enacted by the CSRC and were made effective from October 1, 2010, further regulate 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 also establish and enhance internal control systems for anti-money laundering.

### *Financial Action Task Force on Money Laundering (FATF)*

The FATF is an inter-governmental body established in 1989 with the objective to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF monitors the progress of its members in

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## REGULATORY ENVIRONMENT

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implementing necessary measures, reviewing money laundering and terrorist financing techniques and counter-measures, and promoting the adoption and implementation of appropriate measures globally. The PRC became a member of the FATF in 2007 and the first mutual evaluation report was adopted in June 2007 with a follow-up report was published in March 2012.

### *International Convention for the Suppression of the Financing of Terrorism*

The International Convention for the Suppression of the Financing of Terrorism was adopted by Resolution 54/109 of December 9, 1999 at the fourth session of the General Assembly of the United Nations. This convention aims to prevent, prosecute and punish the financing of terrorist activities and to promote inter-governmental co-operation to achieve this purpose. As of the Latest Practicable Date, the Convention has been ratified by 185 parties, including the government of the PRC which ratified this convention on April 19, 2006 with several reservations.

### *The United Nations Convention against Corruption*

The PRC is a party to the United Nations Convention against Corruption, a multilateral convention adopted by the General Assembly of the United Nations on October 31, 2003. This convention requires parties to implement anti-corruption measures affecting their laws, institutions and practices, and the measures aim to promote the prevention, detection and sanctioning of corruption, as well as the cooperation between ratifying parties on these matters. As of the Latest Practicable Date, the United Nations Convention against Corruption has been ratified by 170 parties. The government of the PRC ratified this convention on October 27, 2005, with reservation on paragraph 2 of Article 66.



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## HISTORY AND CORPORATE STRUCTURE

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### HISTORY OF THE COMPANY

Our Company was incorporated on November 8, 2002, pursuant to the approvals by the CSRC and the Henan government with nine promoters, namely Xuji Group, Henan Economic and Technology Development, Henan Construction and Investment, Anyang Iron & Steel Group, Anyang Economic Development, Anyang Trust, Shenhua Group, Jiaozuo Economic and Technology Development and Hebi Construction and Investment who, at the time of our incorporation, held approximately 40.627%, 35.173%, 9.673%, 9.673%, 1.643%, 1.018%, 0.967%, 0.742% and 0.484% of equity interest in our Company, respectively. At the time of our incorporation, we had a registered capital of RMB1,033,790,000 consisting of 1,033,790,000 Shares with a nominal value of RMB1.00 per Share. Our registered capital increased to RMB2,033,515,700 consisting of 2,033,515,700 Shares with a nominal value of RMB1.00 each in June 2008. See “– Capital Increase and Equity Changes” in this section for further details. Our principal business includes brokerage, investment banking, investment management and proprietary trading businesses. For further details on the principal business of our Group, see “Business.”

Our A shares offering was approved by our Shareholders’ meeting on August 30, 2012 and its application was accepted by the CSRC in September 2012. Since October 2012, the CSRC has suspended its review of all A share offering applications in China, which suspension was lifted in January 2014. As of March 16, 2014, there were 703 companies that were wait-listed on their A share offering applications, among which 171 companies were applying for A share listing on the Shanghai Stock Exchange. Of these 171 companies, we ranked 86th. According to the historical review timetable of the CSRC, we estimate that our A share offering application may be reviewed by the CSRC after June 2015. To accommodate our plan on the Listing, we submitted an application to the CSRC to suspend the review of our A share offering application on March 24, 2014 in accordance with the relevant regulatory requirements. Pursuant to the guiding principle of the CSRC released on May 30, 2014, the application made by all A share offering applicants, including those having applied for suspension, will be terminated unless they have complied with the CSRC’s listing documents pre-disclosure requirement by 30 June 2014. As advised by our PRC legal advisor, in order to prevent our A share listing application being terminated by the CSRC, we shall complete the pre-disclosure of our A share listing documents prior to the prescribed date. Upon the Listing, we shall make announcement to disclose any major progress on our A share application in accordance with the Hong Kong Listing Rules and other applicable laws and regulations. Our proposed A share offering will only resume after the completion of the Global Offering. We expect our proposed A share offering to be completed after June 2015, subject to the CSRC’s approval and the then market conditions.

### OUR BUSINESS MILESTONES

#### 2002

- Obtained the CSRC’s approval for inauguration and *License for Securities Business*
- Completed the registration with Henan Administration for Industry & Commerce, marking our formal incorporation

#### 2003

- Acquired securities business-related assets from Henan Securities Co., Ltd. (河南證券有限責任公司, “**Henan Securities**”) and the treasury bonds sales departments of Zhumadian Municipal Finance Bureau, Mengzhou Municipal Finance Bureau and Xuchang Municipal Finance Bureau, respectively



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## HISTORY AND CORPORATE STRUCTURE

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- Obtained the qualifications for entrusted asset management
- Obtained the qualifications as a lead underwriter for stocks

### 2004

- Registered as a sponsor upon approval by the CSRC
- Obtained the qualifications as a sales agency for open-ended funds
- Obtained the qualifications as a securities dealer for “SSE 50ETF” financial products in China
- Obtained the qualifications to conduct online entrusted securities trading
- Obtained the qualifications to participate in treasury bond repurchase on the Shanghai Stock Exchange

### 2005

- Became one of the first securities firms rated “standard” (規範類證券公司)
- Qualified to act as a sponsor for equity division reform of listed companies
- Became a price consultation target in the IPO of the SAC and obtained the qualifications to deal in warrants

### 2007

- Acquired Central China Futures and increased its share capital, and expanded our business scope to include the provisions of commodity futures brokerage and financial futures brokerage services
- Obtained the approval for the implementation of the scheme of third-party custody of client’s transaction settlement funds

### 2008

- Increased our registered capital to RMB2,033,515,700
- Obtained the *License of Securities Business in Foreign Currency* from the SAFE

### 2009

- Set up our Shanghai branch office

### 2010

- Obtained qualifications for the futures IB business
- Certified as a chief agency broker on the NEEQ
- Obtained approval for our first collective asset management scheme “Yanhuang No. 1” from the CSRC

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## HISTORY AND CORPORATE STRUCTURE

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### 2011

- Set up our Beijing and Zhengzhou branch offices

### 2012

- Obtained the qualifications to conduct margin financing and securities lending business
- Obtained the qualifications to conduct securities repurchase business
- Obtained approval for our first cash management product “Yanhuang Huili collective asset management scheme” from the CSRC
- Obtained the qualifications to conduct dealer-quoted bond repurchase business
- Set up our wholly-owned subsidiary, ZDKY Venture Capital, and its subsidiary, ZZKY Venture Capital, and expanded our business scope to include the provision of equity and equity-linked debt investment, and management of private equity investment services
- Obtained the certification of the globally recognized standard ISO/IEC20000 for IT service management field

### 2013

- Obtained the qualifications to conduct agency sales of financial products
- Obtained the qualifications to conduct refinancing business
- Obtained the qualifications to conduct securities-backed lending business
- Obtained the qualifications to conduct agency business of securities pledge registration
- Set up Ashmore-CCSC Fund Management with a British investment institution Ashmore Investment Management Limited, and expanded our business scope to include fund formation and distribution as well as management of separately managed accounts
- Set up ZZKY Venture Capital Fund
- Set up Luoyang and the Sanmenxia branch offices

### MAJOR ACQUISITIONS

#### **Acquisition of securities business-related assets of Henan Securities**

Following our incorporation, upon the approvals by the CSRC and the Henan government, we entered into an asset acquisition agreement with Henan Securities on December 31, 2002, pursuant to which we acquired the securities business-related assets of the headquarters buildings, 19 securities branches and 11 securities outlets of Henan Securities, including 31 and 20 trading seats in the Shanghai Stock Exchange and the Shenzhen Stock Exchange, respectively. Based on the value of the acquired assets appraised by qualified valuers, the adjusted consideration was RMB114,953,507.87, which was paid by us in January 2003. The transfer of the relevant securities business-related assets was completed in January 2003.

Henan Securities is a securities company established in Henan and was an Independent Third Party at the time of the above acquisition.

#### **Acquisition of the treasury bond sales department of Zhumadian Municipal Finance Bureau (駐馬店市財政局)**

In January 2003, we entered into an asset acquisition agreement with Zhumadian Municipal Finance Bureau, pursuant to which we acquired the securities business-related assets of the treasury bond sales department of Zhumadian Municipal Finance Bureau. Based on the value of the acquired assets appraised by qualified valuers, the adjusted consideration was RMB199,113.26, which was paid by us in two installments in November 2003 and January 2004 respectively with the transfer of the securities business-related assets completed.

Zhumadian Municipal Finance Bureau is a government body established by the Zhumadian government and is responsible for, among others, the management of the local financial matters. Zhumadian Municipal Finance Bureau was an Independent Third Party at the time of the above acquisition.

#### **Acquisition of the treasury bonds sales department of Mengzhou Municipal Finance Bureau (孟州市財政局)**

In January 2003, we entered into an asset acquisition agreement with Mengzhou Municipal Finance Bureau, pursuant to which we acquired the securities business-related assets of the treasury bonds sales department of Mengzhou Municipal Finance Bureau. Based on the value of the acquired assets appraised by qualified valuers, the adjusted consideration was RMB102,981.01. We settled the adjusted consideration and completed the transfer of the securities business-related assets in February 2003.

Mengzhou Municipal Finance Bureau is a government body established by the Mengzhou government and is responsible for, among others, the management of local financial matters. Mengzhou Municipal Finance Bureau was an Independent Third Party at the time of the above acquisition.

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## HISTORY AND CORPORATE STRUCTURE

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### **Acquisition of the treasury bonds sales department of Xuchang Municipal Finance Bureau (許昌市財政局)**

In January 2003, we entered into an asset acquisition agreement with Xuchang Municipal Finance Bureau, pursuant to which our Company acquired the securities business-related assets of the treasury bonds sales department of Xuchang Municipal Finance Bureau. Based on the value of the acquired assets appraised by qualified valuers, the adjusted consideration was RMB11,914,959.69. Our Company settled the adjusted consideration and completed the transfer of the securities business-related assets in January 2003.

Xuchang Municipal Finance Bureau is a governmental body set up by the Xuchang government to be responsible for, amongst other things, the management of local financial matters. Xuchang Municipal Finance Bureau was an Independent Third Party at the time of the above acquisition.

### **Acquisition of Central China Futures**

To develop our futures brokerage business, we acquired 56.01% and 16.67% of the equity interests in Central China Futures from Henan Grain & Oils Foreign Trade Corporation (河南省糧油對外貿易總公司) and Henan Yancheng National Grain Reserves Warehouse (河南鄆城國家糧食儲備庫), respectively, both being Independent Third Parties, in October 2007 after the approvals by the Henan Provincial Finance Bureau and the CSRC. See “– Our subsidiaries” for further details.

### **Approvals from relevant government authorities**

As advised by our PRC legal advisors, Beijing Junzhi Law Offices, all the aforementioned assets acquisition agreements are legally effective and binding on the relevant parties, and all the transfer of assets and equity have been legally completed and settled in accordance with the PRC laws and regulations, and the relevant approvals and/or permits regarding our establishment and acquisitions have been obtained from relevant government authorities.

## **CAPITAL INCREASE AND EQUITY CHANGES**

As resolved at the general meeting of our Company on May 11, 2007 and approved by the CSRC, we increased our registered capital by capitalizing our undistributed profits as of May 31, 2007 of RMB499,725,713.84 and issuing 499,725,700 new bonus Shares to our then existing Shareholders, namely Xuji Group, Henan Economic and Technology Development, Henan Construction and Investment, Anyang Iron & Steel Group, Anyang Economic Development, Shenhua Group, Jiaozuo Economic and Technology Development and Hebi Construction and Investment, respectively, in proportion to their respective shareholdings in our Company. Our then existing Shareholders had further subscribed a total of 500,000,000 Shares at RMB1.00 per Share in proportion to their respective shareholdings. As a result, our registered capital increased to RMB2,033,515,700, consisting of 2,033,515,700 Shares with a nominal value of RMB1.00 per Share in June 2008.

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## HISTORY AND CORPORATE STRUCTURE

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In December 2007, Henan Construction and Investment merged with, amongst others, Henan Economic and Technology Development, both of which were promoters of the Company, and formed Henan Investment Group. The Shares held by these two promoters were then held by Henan Investment Group. See “– Information of Shareholders and major shareholding changes” for further details.

As advised by our PRC legal advisors, Beijing Junzhi Law Offices, the relevant necessary approvals and/or permits relating to the aforesaid capital increase and equity changes have been obtained from the relevant governmental authorities. Following the aforesaid registered capital increases and equity changes, the share capital structure of our Company was as follows:

<u>Shareholders</u>	<u>Number of Shares</u>	<u>Shareholding percentage (%)</u>
Henan Investment Group . . . . .	911,957,800	44.846
Xuji Group . . . . .	826,159,600	40.627
Anyang Iron & Steel Group . . . . .	196,704,200	9.673
Anyang Economic Development . . . . .	54,103,200	2.661
Shenhuo Group . . . . .	19,668,900	0.967
Jiaozuo Economic and Technology Development . . . . .	15,085,100	0.742
Hebi Construction and Investment . . . . .	9,836,900	0.484
<b>Total . . . . .</b>	<b>2,033,515,700</b>	<b>100.00</b>

### INFORMATION OF SHAREHOLDERS AND MAJOR SHAREHOLDING CHANGES

#### Henan Investment Group

In November 2002, two of our promoters, Henan Economic and Technology Development and Henan Construction and Investment, made capital contributions of RMB363,618,424.46 (comprised of RMB50 million cash and assets of RMB313,618,424.46) and RMB100 million to our Company in return for 35.173% and 9.673% equity interest in our Company at the time of our incorporation, respectively.

On October 22, 2007, Henan Government approved the merger of, among others, Henan Economic and Technology Development by Henan Construction and Investment which was then reorganized as Henan Investment Group after the completion of the merger on December 6, 2007.

Henan Investment Group, is a wholly state-owned company established under the Company Law with a registered capital of RMB12 billion. Henan government authorizes Henan DRC and Henan SASAC to perform shareholder’s duties and supervisory duties, respectively. Henan Investment Group is an investment and financing entity of the provincial government, established under the approval of Henan government for the purposes of promoting economic growth in Henan amid the reforms of the investment and financing systems in China. On June 10, 2008, the CSRC approved the transfer of the equity interests previously held by Henan Construction and Investment and Henan Economic and Technology Development respectively to Henan Investment Group. Upon the completion of the foregoing transfer, Henan Investment Group held 44.846% of the equity interests in our Company.

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## HISTORY AND CORPORATE STRUCTURE

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As of the Latest Practicable Date, Henan Investment Group held 44.846% of the equity interests in our Company and is our controlling shareholder. It mainly engages in investment management, construction project investment, sales of raw materials. See “Relationship with our Controlling Shareholder” for further details.

### **Anyang Iron & Steel Group**

In November 2002, after the approvals by the CSRC and the Henan government, Anyang Iron & Steel Group, one of our promoters, contributed RMB100 million in cash in return for 9.673% equity interest in our Company at the time of our incorporation.

As of the Latest Practicable Date, Anyang Iron & Steel Group held 9.673% equity interest in our Company. Anyang Iron & Steel Group, a company incorporated in the PRC, mainly engages in mining and mineral refining, coking and sintering, steel smelting, rolling and machining, metallurgical construction business.

### **Anyang Economic Development**

In November 2012, two of our promoters, Anyang Economic Development and Anyang Trust, made capital contributions to our Company by way of assets of RMB16,980,894.55 and RMB10,522,510.97 in return for 1.643% and 1.018% equity interests in our Company, respectively.

In May 2007, upon the prior approvals by Henan branch of the CSRC and the People’s Government of Anyang City, Anyang Trust transferred its 1.018% equity interest in our Company to Anyang Economic Development, and such transfer has been registered with the relevant governmental department.

As of the Latest Practicable Date, Anyang Economic Development held 2.661% equity interest in the Company. Anyang Economic Development, a company incorporated in the PRC, mainly engages in equity investment and sales of construction materials business.

### **Shenhua Group**

In November 2002, after the approvals by the CSRC and the Henan Government, Shenhua Group, one of our promoters, contributed RMB10 million in cash in return for 0.967% equity interest in our Company at the time of our incorporation.

As of the Latest Practicable Date, Shenhua Group held 0.967% equity interest in our Company. Shenhua Group, a company incorporated in the PRC, mainly engages in production of coal and electrolytic aluminium, electricity generation as well as other production of deep processing products.

### **Jiaozuo Economic and Technology Development**

In November 2002, after the approvals by the CSRC and the Henan Government, Jiaozuo Economic and Technology Development, one of our promoters, contributed RMB7,668,356.53 by way of assets in return for 0.742% equity interest in our Company at the time of our incorporation.

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## HISTORY AND CORPORATE STRUCTURE

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As of the Latest Practicable Date, Jiaozuo Economic and Technology Development held 0.742% equity interest in our Company. Jiaozuo Economic and Technology Development, a company incorporated in the PRC, mainly engages in operation and management of state-owned assets, as well as provincial and municipal funds and project funding.

### **Hebi Construction and Investment**

In November 2002, after the approvals by the CSRC and the Henan Government, Hebi Construction and Investment, one of our promoters, contributed RMB3.5 million in cash and RMB1.5 million by way of assets in return for an aggregate of 0.484% equity interest in our Company at the time of our incorporation.

As of the Latest Practicable Date, Hebi Construction and Investment held 0.484% equity interest in our Company. Hebi Construction and Investment, a company incorporated in the PRC, mainly engages in project investment as well as operation and management of entrusted state-owned assets business.

### **Xuji Group**

In November 2002, after the approvals by the CSRC and the Henan Government, Xuji Group, one of our promoters, contributed RMB420 million in cash in return for 40.627% equity interest in our Company at the time of our incorporation.

In January 2009, China Ping An Trust Co., Ltd. (“**Ping An Trust**”), a trust company in the PRC, acquired and held 100% equity interest in the Xuji Group. Pursuant to the relevant rules of CSRC, Ping An Trust should not directly or indirectly hold equity interests in more than two securities companies, and should only hold majority equity interests in one securities company. As Ping An Trust already held equity interests in more than two securities companies at the time it became the sole shareholder of Xuji Group, Xuji Group decided to transfer the equity interest in our Company. Therefore, Xuji Group later transferred all its equity interest in the Company to certain Independent Third Parties as detailed in this sub-section below. As of the Latest Practicable Date, Xuji Group had transferred all of its 40.627% equity interest in the Company and no longer held any equity interest in the Company. See other parts of this sub-section below for further details.

### **Bohai Fund Management** (*on behalf of Bohai Fund*)

Bohai Fund Management was established as a limited liability company (Sino-Taiwan/Hong Kong/Macau equity joint venture) on December 28, 2006 with a registered capital of RMB200 million upon the approval of the NDRC and the Ministry of Commerce of the PRC. It is held by BOC International Holdings Limited (中銀國際控股有限公司), TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司), NSSF, Bank of China Group Investment Limited (中銀集團投資有限公司), Postal Savings Bank of China (中國郵政儲蓄銀行股份有限公司), CDB Capital Co., Ltd. (國開金融有限責任公司), Tianjin Jinneng Investment Company (天津市津能投資公司), China Life Insurance (Group) Company (中國人壽保險(集團)公司), China Life Insurance Company Ltd. (中國人壽保險股份有限公司) and Tianjin Infrastructure Construction & Investment. (Group) Co., Ltd. (天津城市基礎設施建設投資集團有限公司) as to 48%, 22%, 5%, 5%, 5%, 5%, 2.5%, 2.5%, 2.5% and 2.5%, respectively, since the date of its incorporation.



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## HISTORY AND CORPORATE STRUCTURE

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Bohai Fund was established as an industrial investment fund with the approval of NDRC in October 2006 with a size of RMB20 billion. As of the Latest Practicable Date, the subscription for and contribution of Phase I capital of Bohai Fund in the sum of RMB6.08 billion was completed, of which NSSF, Bank of China Group Investment Limited, Postal Savings Bank of China, China Development Bank Capital Co., Ltd., Tianjin Jinneng Investment Company, China Life Insurance (Group) Company, China Life Insurance Company Ltd., Tianjin Infrastructure Construction & Investment. (Group) Co., Ltd. and Bohai Fund Management contributed 16.447%, 16.447%, 16.447%, 16.447%, 8.224%, 8.224%, 8.224%, 8.224% and 1.316%, respectively.

According to the investment fund management agreement between Bohai Fund Management and Bohai Fund, Bohai Fund Management shall independently manage assets of Bohai Fund, determine the investment and investment exit strategies, enter into investment-related agreements on behalf of Bohai Fund, exercise shareholders' rights or obligations arising from their investments, and continuously monitor investment projects after investments, etc.

In December 2010, Bohai Fund Management (on behalf of Bohai Fund) entered into an equity transfer agreement with the Company's former shareholder Xuji Group, pursuant to which Bohai Fund Management (on behalf of Bohai Fund) acquired 29.899% equity interest in our Company for consideration of RMB1,216 million, which was determined on an arm's-length negotiation. The aforesaid equity transfer was approved by the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Bohai Fund Management (on behalf of Bohai Fund) held 29.899% equity interest in the Company. Bohai Fund Management mainly engages in fund management and providing investment advisory services business.

### **Pingmei Shenma Energy**

Pingmei Shenma Energy entered into an equity interest transfer agreement with our Company's former Shareholder Xuji Group in December 2010, pursuant to which Pingmei Shenma Energy acquired 4.089% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and was registered with the relevant governmental department.

As of the Latest Practicable Date, Pingmei Shenma Energy held 4.089% equity interest in our Company. Pingmei Shenma Energy mainly engages in coal mining, nylon chemical, coal coke chemical, and coal salt chemical business.

### **Jiangsu SOHO**

Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司) (“**Jiangsu SOHO**”) entered into an equity transfer agreement with our Company's former Shareholder Xuji Group in June 2010, pursuant to which Jiangsu SOHO acquired 1.475% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

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## HISTORY AND CORPORATE STRUCTURE

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As of the Latest Practicable Date, Jiangsu SOHO held 1.475% equity interest in the Company. Jiangsu SOHO mainly engages in investment, operation and management of entrusted state-owned assets, international and domestic trading, and real estate development business.

### **Xuchang Superlift**

Xuchang Superlift Construction Materials Science & Technology Co., Ltd. (許昌施普雷特建材科技有限公司) (“**Xuchang Superlift**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in March 2012, pursuant to which Xuchang Superlift acquired 1.180% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Xuchang Superlift held 1.180% equity interest in our Company. Xuchang Superlift mainly engages in manufacturing of automatic doors, and production of insulation wall materials business.

### **Guangzhou Liby**

Guangzhou Liby Investment Co., Ltd. (廣州立白投資有限公司) (“**Guangzhou Liby**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in June 2010, pursuant to which Guangzhou Liby acquired 0.983% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Guangzhou Liby held 0.983% equity interest in our Company. Guangzhou Liby, a company incorporated in the PRC, mainly engages in investment and investment-related advisory business.

### **Henan Jinlong**

Henan Jinlong Industrial Co., Ltd. (河南省金龍實業有限公司) (“**Henan Jinlong**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in December 2010, pursuant to which Henan Jinlong acquired 0.787% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Henan Jinlong held 0.787% equity interest in our Company. Henan Jinlong, a company incorporated in the PRC, mainly engages in production of wrapping and decoration materials as well as sale of printing machines and printing paper.

### **Shandong Huanqiu**

Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司) (“**Shandong Huanqiu**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in December 2010, pursuant to which Shandong Jinlong acquired 0.738% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

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## HISTORY AND CORPORATE STRUCTURE

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As of the Latest Practicable Date, Shandong Huanqiu held 0.738% equity interest in our Company. Shandong Huanqiu, a company incorporated in the PRC, mainly engages in research, development and production of fishing rods in fiber glass or carbon fiber.

### **Jiangsu Huiyou**

Jiangsu Huiyou Woollen Sweater Co., Ltd. (江蘇惠友毛衫有限公司) (“**Jiangsu Huiyou**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in June 2010, pursuant to which Jiangsu Huiyou acquired 0.492% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Jiangsu Huiyou held 0.492% equity interest of our Company. Jiangsu Huiyou, a company incorporated in the PRC, mainly engages in woolen knitwear, and processing of knitting fabric.

### **Shenzhen Rising**

Shenzhen Rising Investment Development Co., Ltd. (深圳市廣晟投資發展有限公司) (“**Shenzhen Rising**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in July 2010, pursuant to which Shenzhen Rising acquired 0.492% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Shenzhen Rising held 0.492% equity interest of our Company. Shenzhen Rising, a company incorporated in the PRC, mainly engages in the investment and domestic trading business.

### **Freetrade Science & Technology**

Zhangjiagang Freetrade Science & Technology Co., Ltd. (張家港保稅科技股份有限公司) (“**Freetrade Science & Technology**”) entered into an equity transfer agreement with our Company’s former Shareholder Xuji Group in June 2010, pursuant to which Freetrade Science & Technology acquired 0.492% equity interest in our Company. The said equity transfer was granted a no objection letter by Henan Branch of the CSRC and registered with the relevant governmental department.

As of the Latest Practicable Date, Freetrade Science & Technology held 0.492% interest equity interest of our Company. Freetrade Science & Technology, a company incorporated in the PRC, mainly engages in development and application of biological technology, e-commerce, as well as port logistics.

Save that (i) Bohai Fund Management is the fund manager of Bohai Fund which holds 29.899% equity interest in our Company on behalf of Bohai Fund; and (ii) Bohai Fund Management holds 1.316% equity interest in Bohai Fund, there is no other relationship among the abovesaid Shareholders of our Company.

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## HISTORY AND CORPORATE STRUCTURE

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### **Approvals or no objection from relevant government authorities**

As advised by our PRC legal advisor, Beijing Junzhi Law Offices, all of the aforementioned equity transfer agreements are legally effective and binding on the relevant parties. All the share transfers have been legally completed and settled in accordance with the PRC laws and regulations, and obtained approvals or no objection letters from relevant government authorities and were duly registered with relevant government authorities.

### **OUR SUBSIDIARIES**

#### **Central China Futures**

Central China Futures was established as a limited liability company in the PRC on April 18, 1993. As of the Latest Practicable Date, Central China Futures has a registered capital of RMB110 million, and is engaged mainly in the provision of commodity futures brokerage and financial futures brokerage services.

To develop its futures brokerage business, the Company acquired 56.01% and 16.67% of equity interests in Central China Futures from Henan Grain & Oils Foreign Trade Corporation and Henan Yancheng National Grain Reserves Warehouse at the considerations of RMB22,675,183 and RMB6,800,908, respectively, in October 2007 upon the approvals of the Finance Department of Henan and the CSRC. The said considerations of the above acquisitions were calculated based on the appraised value of Central China Futures' then net assets (as specified in the appraisal report prepared by the appraisal firm appointed by the parties) and the equity premium. Immediately following the acquisitions, our Company increased the registered capital of Central China Futures by way of cash of RMB20 million in October 2007. Thereafter, our Company further increased the registered capital of Central China Futures in October 2008 and October 2011 by way of cash of RMB30 million and RMB30 million upon approvals by the CSRC, respectively. The above changes of the registered capital of Central China Futures were duly completed and filed with the relevant government departments.

As of the Latest Practicable Date, Central China Futures has a registered capital of RMB110 million, of which our Company held 92.55% of the equity interest.

#### **ZDKY Venture Capital**

ZDKY Venture Capital was established as a limited liability company in the PRC on February 8, 2012 with a registered capital of RMB200 million. It mainly engages in making equity investment, debt investment and fund investment in relation to equity or debt investments by using its own funds or raised funds, as well as providing equity and debt investment advisory services, and other business approved by the CSRC.

As of the Latest Practicable Date, ZDKY Venture Capital was a wholly owned subsidiary of our Company.

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## HISTORY AND CORPORATE STRUCTURE

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### **ZZKY Venture Capital**

ZZKY Venture Capital was established as a limited liability company in the PRC on December 28, 2012 with a registered capital of RMB10 million. It mainly engages in providing private equity management service investments and relevant advisory service.

As of the Latest Practicable Date, ZDKY Venture Capital held 60.0% of the equity interest in ZZKY Venture Capital.

### **Ashmore-CCSC Fund Management**

Ashmore-CCSC Fund Management was established as a limited liability company in the PRC on January 23, 2013 with a registered capital of RMB200 million. It mainly engages in fund formation and distribution, management of separately managed accounts and other businesses as approved by the CSRC.

As of the Latest Practicable Date, our Company held 51.0% of the equity interest in Ashmore-CCSC Fund Management.

### **ZZKY Venture Capital Fund**

ZZKY Venture Capital Fund was established as a limited partnership fund in the PRC on September 17, 2013 with a total interest of RMB110 million. It mainly engages in venture capital investment and related advisory services.

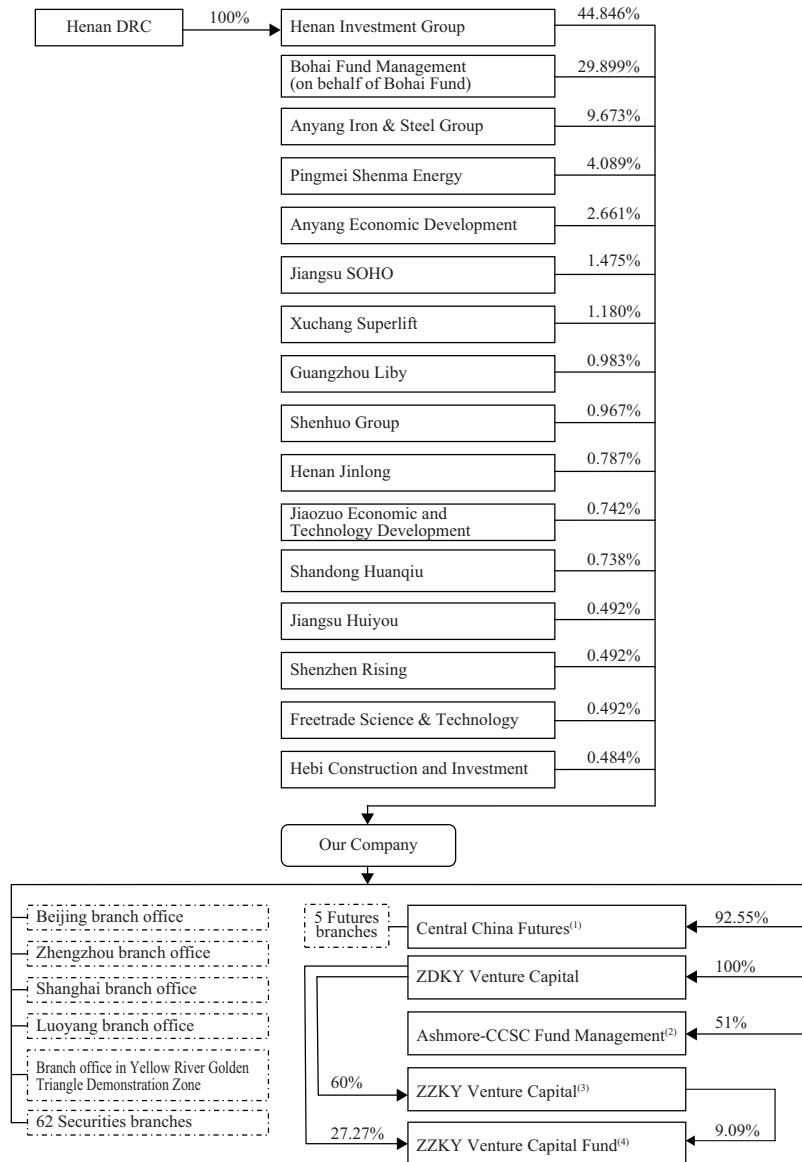
As of the Latest Practicable Date, ZDKY Venture Capital, the limited partner of ZZKY Venture Capital Fund, has subscribed for RMB30 million, amounting to 27.27% of total interest of ZZKY Venture Capital Fund; ZZKY Venture Capital, the general partner of ZZKY Venture Capital Fund, has subscribed for RMB10 million, amounting to 9.09% of total interest of ZZKY Venture Capital Fund.

As of the Latest Practicable Date, our Controlling Shareholder, Henan Investment Group, holds equity interests in certain companies which engage in direct investment business. For the reasons of why Henan Investment Group does not inject such equity interest into our Company, please see “Relationship with our Controlling Shareholder.”

# HISTORY AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

As of the Latest Practicable Date, the equity holding structure of our Group is as detailed below (entities within dotted lines are branch offices and branches of our Company):

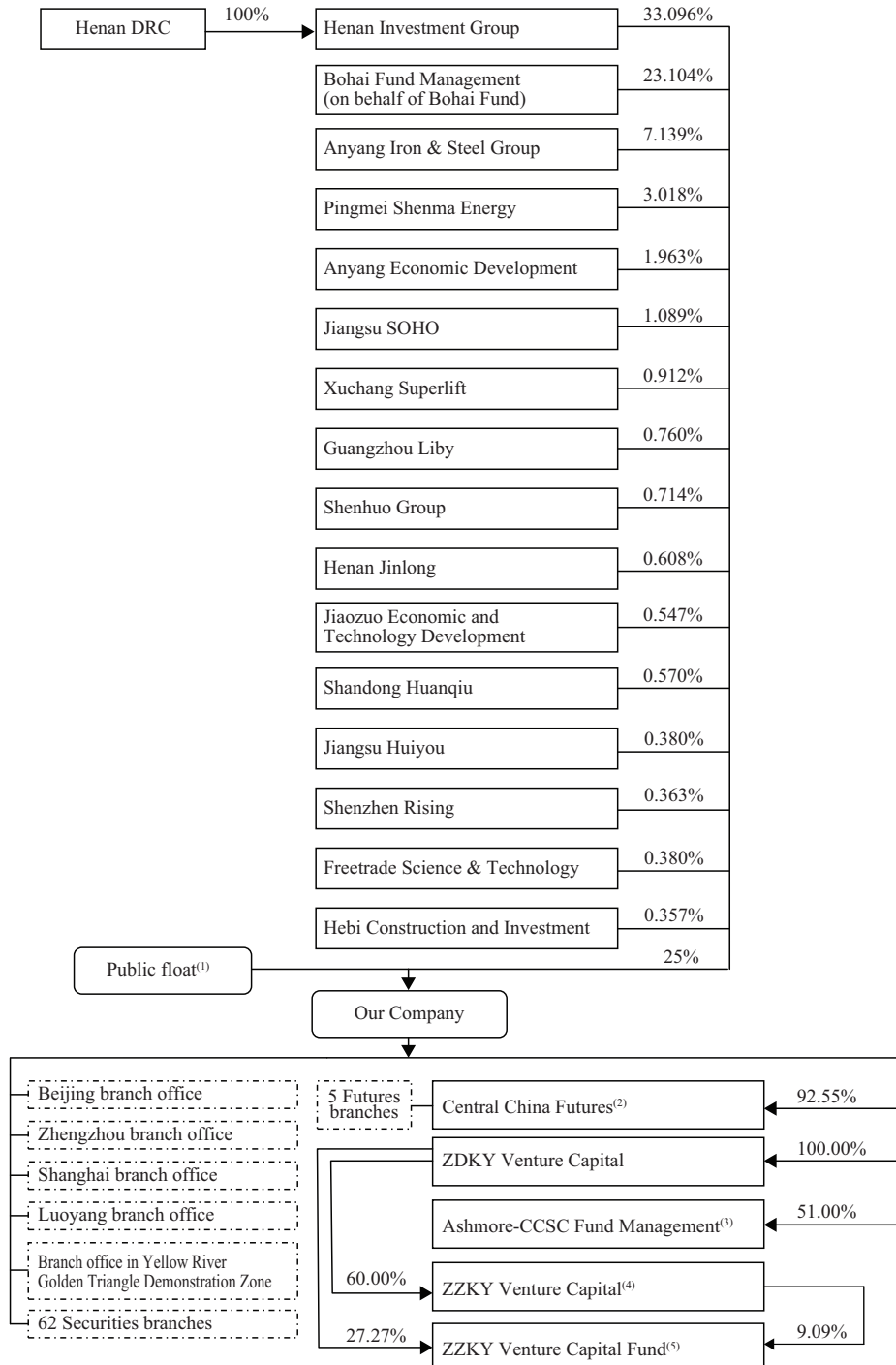


- (1) Henan Grain & Oils Foreign Trade Co., Ltd. (河南省糧油對外貿易有限公司), an Independent Third Party of our Company, holds the remaining 7.45% equity of Central China Futures.
- (2) Ashmore Investment Management Ltd., an Independent Third Party of our Company, holds the remaining 49.0% equity of Ashmore-CCSC Fund Management.
- (3) The remaining 40.0% equity of ZZKY Venture Capital is held by Luoyang Venture Capital Co., Ltd. (洛陽創業投資有限公司), which also holds interest in ZZKY Venture Capital Fund. Save as disclosed, Luoyang Venture Capital Co., Ltd. is an Independent Third Party of our Company.
- (4) Each of Luoyang Venture Capital Co., Ltd., Luoyang Liuhe Hengji Investment Co., Ltd. (洛陽六合恒基投資有限公司), Luoyang Fanya Deonation Engineering Co., Ltd. (洛陽泛亞裝飾工程有限公司), Shanghai Broad Investment Management Co., Ltd. (上海柏帝投資管理有限公司), Yichuan County Baizhong Alloy Furnace Co., Ltd. (伊川縣百眾合金爐料有限公司), Luoyang Baiwan Mutton Soup Catering Management Co., Ltd. (洛陽市百碗羊湯餐飲管理有限公司) and Luanchuan County Chengzhi Industry Co., Ltd. (欒川縣誠志實業有限公司) holds 9.09% interest in ZZKY Venture Capital Fund as a limited partner. Save as disclosed in (3) above, each of the above-mentioned companies is an Independent Third Party of our Company.

## HISTORY AND CORPORATE STRUCTURE

As the Company will not grant any over-allotment option, the equity holding structure of the Group following the Global Offering is set out below (entities within dotted lines are branch offices and branches of our Company):

Our state-owned Shareholders, namely Henan Investment Group, Anyang Iron & Steel Group, Pingmei Shenma Energy, Anyang Economic and Development, Jiangsu SOHO, Shenhua Group, Jiaozuo Economic and Technology Development, Shenzhen Rising and Hebi Construction and Investment will transfer their Shares in accordance with the prevailing PRC regulations in relation to state-owned shares reduction, respectively.





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## HISTORY AND CORPORATE STRUCTURE

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- (1) The state-owned Shares transferred to NSSF by our state-owned Shareholders in accordance with the regulations relating to the transfer of state-owned shares have been included.
- (2) Henan Grain & Oils Foreign Trade Co., Ltd., an Independent Third Party of our Company, holds the remaining 7.45% equity interest of Central China Futures.
- (3) Ashmore Investment Management Company Limited, an Independent Third Party of our Company, holds the remaining 49.0% equity interest of Ashmore-CCSC Fund Management.
- (4) The remaining 40.0% equity interest of ZZKY Venture Capital is held by Luoyang Venture Capital Co., Ltd., which also holds interest in ZZKY Venture Capital Fund. Saved as disclosed, Luoyang Venture Capital Co., Ltd. is an Independent Third Party of our Company.
- (5) Each of Luoyang Venture Capital Co., Ltd., Luoyang Liuhe Hengji Investment Co., Ltd., Luoyang Fanya Deconation Engineering Co., Ltd., Shanghai Broad Investment Management Co., Ltd., Yichuan County Baizhong Alloy Furnace Co., Ltd., Luoyang Baiwan Mutton Soup Catering Management Co., Ltd. and Luanchuan County Chengzhi Industry Co., Ltd. holds 9.09% interest in ZZKY Venture Capital Fund as a limited partner. Saved as disclosed in (4) above, each of the above-mentioned companies is an Independent Third Party of our Company, respectively.

## **OVERVIEW**

We are a leading securities firm in Henan with a full-service business platform and strategic presence in China. We are positioned to capitalize on the rapid economic growth and securities industry development in Henan, the most populous province in China with the highest GDP among the 18 provinces in the central and western regions of China, as well as the abundant business opportunities emerging from the growing capital markets in China. We principally engage in the brokerage, investment banking, investment management and proprietary trading businesses. Our principal business lines include:

- **Brokerage:** We engage in the trading of stocks, funds and bonds on behalf of our clients and provide margin financing and securities lending and wealth management services.
- **Investment banking:** We provide investment banking services, including equity financing, debt financing and financial advisory, to institutional clients.
- **Investment management:** Our investment management business includes asset management, direct investment and fund management.
- **Proprietary trading:** We engage in the trading of stocks, bonds and funds as well as derivatives for our own account with the objective of achieving investment gains.
- **Other innovative business:** We use the funds we own or raise to engage in other types of capital-based intermediary businesses, such as securities-backed lending and securities repurchase.

We have gained leading market positions in both brokerage and investment banking businesses in Henan. According to Wind Info and the Securities and Futures Association of Henan, among all PRC securities firms, we:

- ranked first in Henan throughout the Track Record Period in terms of brokerage trading volume of stocks and funds;
- ranked first in Henan in terms of the revenue derived from securities branches in Henan, representing 28.9% of the local market share in 2013;
- ranked first in Henan in terms of the balance of our margin loans and securities lent as of December 31, 2013, representing approximately 24.2% of the market share in Henan;
- ranked first in Henan in terms of the total amount of equity financing underwritten in both 2012 and 2013;
- ranked first in 2012 and second in 2013 in Henan in terms of the total amount of debt financing underwritten;

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## BUSINESS

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- ranked first in 2012 and ninth in 2013 in China in terms of the number of private companies recommended for share quotation and transfer on the NEEQ; and
- have the most extensive branch network with the largest number of branches in Henan. As of the Latest Practicable Date, we had 62 securities branches and five futures branches, with 49 securities branches and three futures branches located in Henan and the remaining branches strategically located across major cities in China, such as Beijing, Shanghai and Shenzhen.

We have been actively developing various types of capital-based intermediary businesses, including primarily margin financing and securities lending, securities-backed lending and securities repurchases. Our margin financing and securities lending business has grown rapidly since its launch in July 2012 and the balance of our margin loans and securities lent increased from RMB210.8 million as of December 31, 2012 to RMB2,266.8 million as of December 31, 2013. We launched our securities repurchase business in October 2012 and our securities-backed lending business in August 2013 to better meet our clients' needs for financing and liquidity.

We have achieved rapid growth and enhanced profitability during the Track Record Period. Our revenue and other income increased by 26.1% from RMB966.3 million in 2011 to RMB1,218.5 million in 2012 and further increased by 17.7% to RMB1,434.6 million in 2013, representing a CAGR of 21.8%. Our profit increased by 97.4% from RMB92.8 million in 2011 to RMB183.2 million in 2012 and further increased by 30.1% to RMB238.4 million in 2013, representing a CAGR of 60.3%. According to the SAC, our Company's profit (under PRC GAAP) increased by 84.4% in 2012 and 48.5% in 2013, outperforming the average industry growth rate of negative 16.4% in 2012 and 33.7% in 2013 and our profit CAGR from 2011 to 2013 also outperformed all other PRC securities firms listed in Hong Kong during the same period.

### COMPETITIVE STRENGTHS

#### **Well-positioned to benefit from the significant potential for economic growth and securities industry development in Henan**

Henan has the highest GDP among 18 central and western provinces in China, ranking fifth in China for the past ten consecutive years. In 2012, Henan recorded a GDP of approximately RMB3.0 trillion, comparable to the 26th largest economy in the world. Benefiting from the "Rise of the Central China Plan (中部崛起戰略)," Henan has achieved rapid economic growth and its nominal GDP increased at a CAGR of 13.3% from 2009 to 2013. An old saying goes: "Those Who Win Central Plains Win China (得中原者得天下)." Located at the heart of China, Henan serves as an important transportation hub connecting the eastern and western regions of China, enabling it to capture the opportunities of industrial migration from the more developed eastern and southern coastal regions to the central and western regions.

Henan has experienced rapid economic growth since the implementation of the “Rise of Central China Plan” in 2006 and has benefited, and we believe will continue to benefit from the three PRC national strategic plans on the development of “Central Plains Economic Zone (中原經濟區),” “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合實驗區)” and “National Core Producing Area of Grains (國家糧食生產核心區).” See “Industry Overview – Economic Development Policies in Henan.” We believe that the continued implementation of the three national strategic plans relating to Henan will contribute greatly to local economic growth and social wealth accumulation, which could provide opportunities to the financial services industry in Henan.

Henan has great potential for urbanization and industrialization. As of December 31, 2013, Henan is the most populous province in China, totaling 106.0 million residents and has a relatively low urbanization rate of 43.8%, about ten percentage points lower than the average rate of all provinces in China. Henan government is accelerating its urbanization process and intends to increase the provincial urbanization rate to exceed 52.0% by 2017. Six main industry sectors that play an important role in propelling economic growth in Henan have formed industry clusters, including electronic information, equipment manufacturing, automobile, food processing, light industry and new materials.

Henan has considerable potential for capital market development. As of December 31, 2013, the securitization ratio in Henan was 13.7%, far behind the national average ratio of 42.1%. According to Wind Info, total brokerage trading volume of stocks and funds in Henan in 2013 accounted for 64.0% of its provincial GDP, far behind the national average of 169.8% in the same year. The Henan government has placed strong emphasis on the development of local capital markets and intends to facilitate corporate financing by qualified local corporations through IPOs, second offerings and bond offerings and to build a Regional OTC Board to create a multi-tiered capital market system for corporate financing and share transfer. With these supporting policies, we believe the capital markets and securities industry in Henan will prosper.

As the only securities firm registered and headquartered in Henan, we have over ten years of market experience in Henan, from which we have developed a deep insight into the local market environment and customer demand, built sound relationships with local government authorities and corporations, and established a strong local advantage and brand recognition in the Henan market compared to our competitors, which we refer to as our “Henan Advantage.” Leveraging our “Henan Advantage,” we maintain a leading position in Henan’s securities market. As Henan continues to pursue industrialization, urbanization, agricultural modernization and informationization, we believe we will be able to capture greater business opportunities and command larger market shares.

**Leading branch network and customer base in Henan, complemented by our strategic presence across China**

According to the Securities and Futures Association of Henan, we have the most extensive branch network coverage in Henan among all PRC securities firms. As of December 31, 2013, we had 46 securities branches in Henan, representing 26.1% of all securities branches in the province. With our deep understanding of the Henan market, we strategically developed our

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branch network with a focus on areas with more advanced economies and/or high growth potential and covering all the 18 prefecture-level cities in Henan. Our 36 securities branches located in these cities have completed their transition from conventional brokerage branches to comprehensive securities and financial services platforms that provide integrated brokerage, investment banking and investment management services to improve our overall client service capabilities and cross-selling ability. An extensive and comprehensive network coverage enables us to provide localized services to our clients and capture more opportunities emerging from the fast-growing securities industry in Henan.

We have strategically expanded our branch network outside Henan and established 12 securities branches across the “Bohai Rim,” “Yangtze River Delta” and “Pearl River Delta,” as well as alongside the “Beijing-Guangzhou Railway,” one of the most important railway lines in China connecting the north and south of China and servicing Beijing, Shanghai, Shenzhen, Tianjin, Hangzhou, Qingdao, Changsha, Shijiazhuang and other cities. Our strategic presence across China enables us to source high-end customers and business opportunities across the nation and increased synergies with our branch network in Henan. In addition, we have developed an electronic securities platform to further expand our customer reach and enhance our IT-based service capabilities.

We own the most extensive customer base in Henan among all PRC securities firms and are continuing our nationwide expansion. As of December 31, 2013, we had over 1,273,000 securities brokerage customers in Henan, representing approximately 30.2% of all securities brokerage customers in the province. Following our strategic expansion across China, our securities brokerage customer number increased to approximately 1,340,000 in China as of December 31, 2013. In addition, our customer base is relatively stable and active. As of December 31, 2013, approximately 67.0% of our securities brokerage customers had active accounts and approximately 67.9% had maintained accounts with us for over five years.

Leveraging our “Henan Advantage,” we have built a sizable and diverse investment banking customer base. During the Track Record Period, we have serviced over 70 investment banking clients, covering, resources, agriculture, media, tourism, environmental protection, automotive, pharmaceutical, textile and technology industries. Our clients consist primarily of government agencies, state-owned enterprises and private enterprises. We have entered into strategic cooperation agreements with 12 municipal governments among the 18 prefecture-level cities in Henan for providing comprehensive securities services. As of the Latest Practicable Date, we had established business relationships or entered into cooperative agreements with 20 enterprises among the 31 enterprises supervised by the Henan SASAC and with 30 out of 65 PRC-listed companies in Henan.

### **Leading brokerage and investment banking businesses in Henan with a diversified and collaborative business platform**

We have a leading brokerage business in Henan. According to Wind Info, our total brokerage trading volume of stocks and funds ranked first in Henan during the Track Record Period, accounting for approximately 24.6%, 24.3% and 24.1% of the total brokerage trading volume of stocks and funds in Henan in 2011, 2012 and 2013. We were one of the first securities firms in China to establish its wealth management center at the headquarters level in 2009, transitioning our brokerage business from traditional channel-based services to value-added wealth management services.

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We have a leading investment banking business in Henan. According to Wind Info, we ranked first in Henan in terms of the amount of equity financing underwritten in both 2012 and 2013. In 2012 and 2013, we had underwritten secondary offerings with aggregate proceeds of RMB11.6 billion, representing approximately 46.5% of the total amount of equity financing in Henan. The total amount of debt financing we underwrote increased from RMB0.8 billion in 2011 to RMB4.9 billion in 2012 and further to RMB8.4 billion in 2013. In addition, we became qualified in May 2010 to provide recommendation services to help private companies enter into the NEEQ (also known as the “New OTC Board”) for share quotation and transfer. In 2012, we recommended nine private companies for share quotation and transfer on the NEEQ, ranking first among all PRC securities firms. In 2011, our financial advisory business ranked first among all PRC securities firms in terms of revenue growth. Owing to the rapid growth of our investment banking business, we were awarded “Investment Bank with the Highest Growth Potential” in 2011 and “Best Investment Bank for Secondary Offering” and “Best Chief Agency Broker for the NEEQ” in 2013 by Securities Times.

We have a diversified business platform for providing comprehensive securities services to our clients. Our principal business includes brokerage, investment banking, proprietary trading and investment management. Benefiting from an integrated business platform, we share resources and information effectively to achieve enhanced synergies and cross-selling across all business lines:

- our newly-upgraded comprehensive securities and financial services platforms have enabled us to expand client coverage and improve marketing and sales capabilities for supporting all of our principal business lines;
- our substantial customer base and extensive branch network in Henan have provided strong customer resources to our margin financing and securities lending and asset management businesses;
- our investment banking business has enabled us to explore possible opportunities for other business lines. For example, we provide asset custodian services for our investment banking clients with substantial amount of non-tradable shares, enabling us to expand our securities-backed lending and wealth management services; and
- our research team focuses primarily on the Henan market, covering almost all public companies in Henan, and provides analysis on macro-economics, investment strategies and industry sectors, to support our business.

### **Continuous and strong innovative capabilities enabling us to capitalize on opportunities from PRC securities industry reform**

To keep in the forefront of, and capture the opportunities from, the securities industry’s transformation and the rapidly evolving market and regulatory requirements we face, we constantly adjust our operating strategies through continuous business and product innovation. For example, our brokerage business has been transitioning from traditional channel-based

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services to value-added wealth management services, and our existing securities branches have also been transitioning into comprehensive securities and financial services platforms. We strive to closely follow new market development and have strategically established a market presence early to conduct NEEQ recommendation business. This has enabled us to capture opportunities arising from changes in the market.

Following the creation of our business innovation committee led by our President in May 2012, we established a business innovation department in February 2013 to focus on research, development and introduction of innovative products and services for achieving sustainable growth. Through continuous business innovation, we have obtained a number of qualifications for conducting innovative business and developed various capital-based intermediary and capital investment businesses, such as margin financing and securities lending, securities-backed lending, securities repurchase and direct investment. During 2012 and 2013, our innovative businesses have achieved rapid growth, particularly margin financing and securities lending, which propelled our revenue growth.

- *Margin financing and securities lending:* Launched in July 2012, this emerging business has grown rapidly based on our extensive and stable customer base. The balance of our margin loans and securities lent increased from RMB210.8 million as of December 31, 2012 to RMB2,266.8 million as of December 31, 2013, while our market share in China increased from 0.2% as of December 31, 2012 to 0.7% as of December 31, 2013.
- *Securities-backed lending:* We launched our securities-backed lending business in August 2013. As of December 31, 2013, the total value of non-tradable shares entrusted by our clients exceeded RMB40.2 billion, providing a substantial pool of eligible assets for growing our securities-backed lending business.
- *Direct investment:* We established our direct investment subsidiary, ZDKY Venture Capital, in February 2012. Our sound and long-term relationship with local government authorities in Henan has enabled us to remain competitive in securing investment opportunities in local SMEs with high growth potential. As of December 31, 2013, we had invested a total of RMB38.3 million in companies operating in the technology and machinery industries.
- *Other innovative businesses:* We have also been actively developing other types of innovative businesses with growth potential, including dealer-quoted bond repurchases, asset-backed securitization schemes, securities repurchases and SME private bonds.

### **Optimized business structure and rapid profit growth**

To minimize the adverse impact of market volatility on our results of operations, we have strategically optimized our business structure during the Track Record Period and have gradually achieved a balanced business mix with diverse sources of revenue. While maintaining our competitive advantages in the securities brokerage business, we have actively expanded our



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investment banking, proprietary trading and margin financing and securities lending businesses in recent years. As a percentage of total revenue and other income, segment revenue and other income from our securities brokerage business decreased from 73.1% in 2011 to 47.3% in 2013, and segment revenue and other income from our margin financing and securities lending, investment banking and proprietary trading businesses amounted to 10.9%, 11.5% and 14.2% in 2013, respectively, indicating a more balanced revenue mix.

Benefiting from our clear business strategy and strong execution capabilities, we have successfully withstood market fluctuations during the Track Record Period and achieved rapid and steady growth. Our revenue and other income increased by 26.1% from RMB966.3 million in 2011 to RMB1,218.5 million in 2012, and further increased by 17.7% to RMB1,434.6 million in 2013. According to the SAC, our Company's profit (under PRC GAAP) increased by 84.4% in 2012 and 48.5% in 2013, outperforming the average industry growth rates of negative 16.4% in 2012 and 33.7% in 2013, and our profit CAGR from 2011 to 2013 also outperformed all other PRC securities firms listed in Hong Kong during the same period.

### **Outstanding management team and market-oriented human resources management**

Our management team has extensive experience and an outstanding track record in the securities and financial services industry. 90.0% of our senior management team hold master's or doctorate degrees and have an average of 18 years of management experience in the financial services industry, enabling them to form a deep understanding of the financial industry and acute business judgment and to timely capture the opportunities for adjusting our business strategies. Our Chairman, Mr. JIAN Mingjun, has 28 years of working experience in economic, financial and corporate management sectors and has an in-depth knowledge and insight of macroeconomic policies in China, securities markets and the local economy in Henan. Mr. Jian has held management positions in the Ministry of Finance, the Finance Department of Henan Province, State-owned Enterprises Supervisory Committee of the Henan Government and ASIA (Group) Accounting Firm and was our President from October 2008 to August 2012. Our President, Mr. ZHOU Xiaoquan, has served in the financial services industry for 15 years, including the headquarters of China Construction Bank, CPC Central Financial Work Commission (currently known as the CBRC) and the CSRC. Mr. Zhou has extensive experience in economics and financial research and is equipped with modern management philosophy and strong execution skills. For a detailed biography of our Directors and senior management, see "Directors, Supervisors, Senior Management and Employees." Our mid-level management team, including all department heads and general managers of our branches, have an average of ten years of experience in the PRC securities industry. We believe it is important to enroll our management team for overseas training. Both of our Chairman and President have attended training and exchange programs at Wharton Business School, University of Pennsylvania, the United States and Canadian Securities Institute, Canada. Our other senior executives and mid-level management team members have received professional on-the-job training overseas.

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We adopt a market-oriented and performance-based employee compensation structure and implement a multi-layered evaluation system which focuses on performance and management goals. In particular, the remuneration of our frontline staff and management team closely correlates to our results of operations. We apply effective human resources management enabling the promotion or demotion of management personnel, hiring or firing of employees and the increase or decrease of salaries, based primarily on performance. By doing so, we are able to maintain a vibrant and proficient team and retain skilled talent. We focus on motivating our frontline staff and pay great attention to cultivating a sound corporate culture and providing employee assistance programs to achieve strong corporate cohesion and low staff turnover. To improve employee skills, we offer regular on-the-job training programs and encourage our employees to pursue financial and accounting qualifications. We grant special allowances to our employees for acquiring professional qualifications, such as sponsor representative, Chartered Financial Analyst, Certified International Investment Analyst and Financial Risk Manager.

### **Effective risk management systems and internal controls, advanced IT system and leading “Total Cost Management” capability**

We have established effective risk management systems and internal controls which enable us to identify, evaluate and manage market, credit and operational risks in our business, to optimize risk allocation and to develop risk-mitigating measures. We have implemented a four-level risk management structure, consisting of our (i) Board and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Internal Audit Department, Risk Management Department, Legal and Compliance Department to prevent, mitigate and review risks; and (iv) frontline risk management functions at our business departments and branches. In addition, we have established a dynamic risk control indicator based on our Net Capital which enables risk monitoring, early warning and reporting of various risks. We have standardized sensitivity analysis and stress testing procedures for various risks across all business lines and conduct stress testing on a regular and *ad hoc* basis to help us optimize our assets allocation and mitigate risks.

We have an advanced IT system and received ISO20000 certification in April 2012. We have adopted a standardized IT structure that streamlined our IT policies, procedures and standards to achieve a seamless cycle of “PDCA” (Plan-Do-Check-Action). Our IT system also allows us to monitor our brokerage, investment and credit-based transactions on a real-time basis, providing effective support to our key business operations and risk management system. Our advanced and effective IT system has enabled us to execute our growth strategy more efficiently and to achieve business and product innovation, nationwide expansion and improved customer service.

We adopted a sound accounting and cost management framework and pioneered a cost management methodology based on a “Total Cost Management” concept, which is intended to provide a company-wide systematic and structured approach to control and reduce costs. Such solution was well-received by the SAC in 2012. We were one of the first securities firms in China to launch an IT system for “Total Cost Management” to enhance our cost-management capability and competitive advantage.

## **BUSINESS STRATEGIES**

Our vision is to become a PRC-leading and world-known financial services provider. We intend to capture the abundant opportunities from the liberalization of capital markets in China and the continued implementation of the three national strategic plans relating to Henan. In particular, we plan to carry out the following measures to capture the opportunities from those three national strategic plans:

- capture the opportunities arising from the “Central Plains Economic Zone” by leveraging our geographic advantage in “Zhengdong New District” and developing our equity and debt financing business and direct investment business, in order to facilitate the development of the core functions of the financial center at “Zhengdong New District,” which we believe will greatly benefit our future growth.
- capture the opportunities arising from the “Zhengzhou Airport Economic Experimental Zone” by actively participating in its development and exploring areas of business potential to accelerate our growth, especially through offering asset-backed securitization and project finance services, which we believe will contribute to the joint growth of Zhengzhou Airport Economic Experimental Zone and us.
- capture the opportunities arising from the “National Core Producing Area of Grains” by actively providing direct investment, asset restructuring, IPO and M&A services to leading agricultural companies in Henan which we have identified, including, in particular, those operating in the crop seed and livestock farming, food processing and agricultural machinery industries to help them achieve continued growth while bringing new growth opportunities to us.

We will continue to focus on the Henan market and to leverage our regional advantage to enhance our competitive strengths for further broadening our national presence. We will continue to strengthen our brokerage, investment banking and investment management businesses while striving to develop our capital-based intermediary businesses in order to achieve sustainable growth. Our business strategies are detailed as follows:

### **Capitalize on the growth potential of the Henan securities industry and advance the transition of our brokerage business**

We plan to further strengthen our leading position in the brokerage business in the Henan market and to continue our nationwide expansion. We intend to implement the following strategies:

- *Optimizing branch network:* We plan to complete the transition of our remaining securities branches to comprehensive securities and financial services platforms by the end of 2014. Leveraging our in-depth understanding of Henan, we intend to increase the number of our “light branches” based on market potential, our competitive advantages and our synergy with existing branches. These efforts will further extend

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our customer reach and help us develop more high-net-worth and institutional customers. In addition, we will take advantage of our strategically located branch network across China to promote information and resource sharing to achieve greater synergies. We intend to increase the number of our securities branches in China to 77 by the end of 2014. Subject to regulatory approvals and licensing from the CSRC, SFC and other regulatory authorities in China and Hong Kong, we plan to set up an office in Hong Kong in the second half of 2015 to provide various financial advisory services and assist our customers to access the Hong Kong and international capital markets. We believe that our expansion plan into Hong Kong could benefit from the launch of the “Shanghai-Hong Kong Stock Connect.” See “Industry Overview – Development Trends of the PRC Securities Industry.” Currently, we plan to seek business opportunities in and outside Henan by organic growth, and as of the Latest Practicable Date, we did not have any acquisition plan nor had we identified any target for acquisition.

- *Providing more value-added services:* We seek to offer more comprehensive wealth management products to our customers through increasing the variety of our own wealth management products and promoting our own wealth management brand of “Central China Wealth (財富中原).” We intend to distribute a more diverse range of third-party and cross-market financial products to expand our customer coverage and loyalty. We also endeavor to enhance the professional skills of our investment consultancy team and offer exclusive investment advisory and wealth management services for attracting more high-end customers.
- *Developing electronic securities platform:* We plan to further develop our recently-launched electronic securities platform to expand our customer reach beyond the physical boundaries of our securities branches and source more customers online to lower our operating costs. We intend to improve this platform by enhancing customer experience, offering third-party wealth management products online and integrating our corporate website, online trading portal and other internal resources into this online platform.

Furthermore, we intend to capitalize on our “Henan Advantage” to expand our futures brokerage, in particular stock index futures and treasury bond futures, through our competitive advantages in the securities industry to achieve synergies with our securities brokerage business.

### **Capture opportunities from PRC securities industry reform to strengthen our regional advantage and innovation capability in our investment banking business**

We plan to further strengthen our leading position in the investment banking business in the Henan market and to enhance our nationwide competitiveness. Given the substantially increased financing needs in Henan, we intend to implement the following strategies:

- *Equity financing:* We believe the equity financing market in Henan has considerable growth potential given the reform plans for the A share IPO system, the introduction of preferred shares and the strong support from local government authorities in Henan

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to facilitate equity and debt financing by local companies. Our customer strategy will focus on serving the financing needs of large state-owned enterprises which primarily operate in the resources, agriculture, tourism, media and high-tech industries as well as quality SMEs with significant growth potential in Henan through leveraging our extensive regional branch network and cooperation with various local governments in Henan. We plan to continue to optimize our internal organization structure and supplement our regional offices and securities branches with investment banking functions to strengthen our local client coverage and business development capabilities. In addition, we also intend to leverage our strategic presence and brand recognition to source more equity financing business outside Henan.

- *Debt financing:* We believe the structural transformation of the PRC securities industry and the acceleration of urbanization in Henan will create significant business opportunities for debt financing. We intend to leverage our sound cooperation with various local governments in Henan, our extensive customer resources and strong marketing ability to further develop our debt financing business and diversify our debt financing products to include corporate bonds, enterprise bonds, municipal bonds, perpetual bonds (永續債) and SME private bonds (中小企業私募債). In addition, we also intend to expand our debt financing business outside Henan through our nationwide branch network and more active cooperation with third parties, such as financial advisory providers.
- *Financial advisory:* As the PRC economy experiences structural transformation and industry consolidation increases, we intend to facilitate more corporate restructuring activities for large state-owned corporations in key industry sectors in Henan and proactively advise on M&A activities for quality private companies.
- *OTC market:* Abundant quality SMEs exist in Henan but they are faced with limited financing channels. We intend to capture the business opportunities from the expansion of the OTC market in China and recommend more qualified private companies in Henan to the NEEQ for share quotation and transfer in order to strengthen our competitive advantage in the OTC market. In the meantime, led by the Henan government, we intend to assist in the establishment of the “Regional OTC Board” in Henan, which enables local SMEs to obtain financing and transfer shares with greater flexibility.

### **Leverage synergies with other business lines and competitive strengths to enhance our investment management business**

We believe our investment management business has considerable growth potential and we plan to implement the following strategies to develop this business:

- *Asset Management:* Increases in household income and the number of high-net-worth individuals in Henan have resulted in a strong demand for wealth management services. Benefiting from the deregulation of the financial industry in China and our

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extensive branch network and our “Henan Advantage,” we intend to increase our AUM by developing and offering more popular products, such as collective asset management schemes based on market demand, and to enhance our sales and marketing capabilities. In addition, we plan to develop and expand our asset-backed securitization business. On March 17, 2014, the CSRC approved our first asset-backed securitization scheme.

- *Direct Investment:* We intend to leverage our “Henan Advantage” to form strategic cooperations with local governments in Henan and further explore investment opportunities in SMEs with high-growth potential. We plan to increase the registered capital of ZDKY Venture Capital by RMB200.0 million after the Global Offering. See “Future Plans and Use of Proceeds.” We also welcome capital contributions from third-party investors to establish a variety of direct investment funds, M&A funds and industry funds for this purpose. In addition, we will further improve our project evaluation system to assist our project selection and investment decision-making. In January 2014, the CSRC legislated to permit direct investment subsidiaries of securities firms in China to make direct debt investments. We intend to actively develop this new business.
- *Fund Management:* Through our subsidiary Ashmore-CCSC Fund Management, we intend to leverage its foreign shareholder’s experience and our extensive branch network in China for developing public fund products based on quantitative trading and expanding separately managed account business. We also plan to provide management services for the QFII and RQFII products developed by Ashmore.

### **Improve return on equity by focusing on capital-based intermediary businesses and increasing leverage ratio**

We intend to accelerate our product innovation by taking advantage of the deregulation and structural transformation of the PRC securities industry as well as the increased demand for new financial products and alternative financing in Henan.

We expect our capital-based intermediary businesses, especially margin financing and securities lending as well as securities-backed lending, to be important areas driving our revenue and profit growth. We plan to actively expand our margin financing and securities lending business, which we estimate will require approximately RMB1,200 million and RMB500 million of additional capital in 2014 and 2015, respectively. We expect to finance these additional capital requirements using a combination of our cash and cash balances, cash flows from operating activities, funds from China Securities Finance and proceeds from our corporate bonds, as well as approximately 50.0% of the net proceeds from the Global Offering (approximately HK\$791.2 million). In addition, we plan to use approximately 25.0% of the net proceeds from the Global Offering (approximately HK\$395.6 million) to develop other capital-based intermediary businesses, including: (i) expanding our securities-backed lending and securities repurchase businesses; (ii) gradually engaging in market-making; and (iii) actively expanding other capital-based intermediary business to be approved by the CSRC. See “Future Plans and Use of Proceeds.”



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The PRC regulatory authorities have been relaxing the capital requirements for securities firms in order to encourage securities firms to increase their capital efficiency, including lowering the capital requirements and the risk-weighted capital reserve requirements. We intend to prudently increase our leverage ratio over time through diverse financing channels (including short-term notes and corporate bonds offerings) and other types of low-cost financing so as to increase our financial leverage and return on equity.

### **Strengthen capital management, risk management, internal controls and IT capabilities to improve overall operational efficiency**

As we develop new businesses, we intend to continue upgrading our middle- and back-office support by taking the following measures:

- improving the efficiency of capital allocation among business lines by strengthening the monitoring of core risk control indicators, including Net Capital and risk-based capital;
- establishing a risk management system that supports the development of new businesses through risk identification, risk allocation, risk-based performance evaluation and risk hedging;
- integrating risk management mechanisms and building a unified risk management infrastructure to prevent risks before they occur, managing and controlling risks when they occur, and auditing and reviewing risks after they occur, thereby ensuring that risk management functions are integrated into our entire business operation for achieving a comprehensive risk management framework;
- strengthening our compliance and audit capabilities as well as “Chinese walls” between various business lines; and
- enhancing our IT system’s support for new businesses and technologies and developing and increasing Internet-based IT functions.

### **Reinforce our human resources management for effectively attracting, incentivizing and retaining talented professionals**

Our success depends to a great extent on our ability to attract, incentivize and retain professional and experienced personnel. In order to maintain and improve our competitive advantages in the market, we intend to implement the following human resources initiatives:

- pursue and optimize a market-oriented and performance-based remuneration system across our business lines;
- adopt well-designed recruitment strategy for attracting high-end professionals with international vision;
- promote outstanding professional personnel with strong leadership skills and execution ability, and continuously optimize our employee structure;



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- provide our employees with professional training and clear and customized career development plans; and
- further incentivize and increase the loyalty of our employees through incentive schemes, including employee stock ownership programs, subject to applicable laws and regulations.

### OUR BUSINESS

We provide a wide range of financial products and services to individuals, corporations, financial institutions and government entities. Our main products and services by business line include:

Business Lines	Main Products and Services
Brokerage . . . . .	<ul style="list-style-type: none"> <li>• Securities brokerage</li> <li>• Margin financing and securities lending</li> <li>• Futures brokerage</li> </ul>
Investment banking . . . . .	<ul style="list-style-type: none"> <li>• Equity financing</li> <li>• Debt financing</li> <li>• Financial advisory</li> </ul>
Investment management . . . . .	<ul style="list-style-type: none"> <li>• Asset management</li> <li>• Direct investment</li> <li>• Fund management</li> </ul>
Proprietary trading . . . . .	<ul style="list-style-type: none"> <li>• Trading of bonds, stocks, funds and derivative products on our own account</li> </ul>
Other innovative business . . . . .	<ul style="list-style-type: none"> <li>• Securities-backed lending</li> <li>• Securities repurchase</li> </ul>

The following table sets forth our revenue and other income by segment for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%
Brokerage . . . . .	740.8	76.7	550.2	45.1	901.3	62.8
– Securities brokerage . . .	706.1	73.1	494.1	40.5	678.9	47.3
– Margin financing and securities lending . . .	–	–	6.1	0.5	155.8	10.9
– Futures brokerage . . . .	34.7	3.6	50.0	4.1	66.6	4.6
Investment banking . . . . .	74.5	7.7	172.8	14.2	164.9	11.5
Investment management . . .	17.3	1.7	39.3	3.2	17.5	1.2
Proprietary trading . . . . .	(53.2)	(5.5)	324.1	26.6	204.0	14.2
Headquarters and others <sup>(1)</sup> . .	188.0	19.5	133.5	11.0	148.7	10.4
Inter-segment elimination . .	(1.1)	(0.1)	(1.4)	(0.1)	(1.8)	(0.1)
<b>Total . . . . .</b>	<b>966.3</b>	<b>100.0</b>	<b>1,218.5</b>	<b>100.0</b>	<b>1,434.6</b>	<b>100.0</b>

(1) Includes interest income from securities-backed lending and securities repurchases, interest income from our own deposits and deposits we hold on behalf of our customers, as well as other income and gains such as government grants and rental income.

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### Brokerage

Our brokerage business engages in the following activities:

- *Securities brokerage*: we execute trades on behalf of our clients in stocks, funds and bonds;
- *Margin financing and securities lending*: we take clients' collaterals to provide margin financing and securities lending, which provides financial leverage for our clients and enables them to engage in short selling; and
- *Futures brokerage*: we execute trades on behalf of our clients in commodity futures and financial futures.

As of December 31, 2013, through our 58 securities branches and five futures branches across Henan and in 12 major cities throughout China, such as Beijing, Shanghai and Shenzhen, we have provided securities brokerage services to approximately 1,340,000 retail clients and over 800 institutional customers, as well as futures brokerage services to approximately 11,000 customers. Our margin financing and securities lending business was established in July 2012 and achieved rapid growth thereafter.

Brokerage has been one of our core businesses and revenue from such business has represented a major portion of our total revenue and other income. In 2011, 2012 and 2013, revenue and other income from our brokerage business amounted to RMB740.8 million, RMB550.2 million and RMB901.3 million, respectively, representing 76.7%, 45.1% and 62.8% of our total revenue and other income, respectively, during those years.

The following table sets forth the segment revenue and other income from our securities brokerage, margin financing and securities lending and futures brokerage businesses for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%
Securities brokerage . . . . .	706.1	95.3	494.1	89.8	678.9	75.3
Margin financing and securities lending . . . . .	–	–	6.1	1.1	155.8	17.3
Futures brokerage . . . . .	34.7	4.7	50.0	9.1	66.6	7.4
<b>Total . . . . .</b>	<b>740.8</b>	<b>100.0</b>	<b>550.2</b>	<b>100.0</b>	<b>901.3</b>	<b>100.0</b>

### *Securities brokerage*

We engage in the trading of various securities products on behalf of our customers, including:

- *Stocks*: stocks of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange;

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- *Funds*: listed funds, including open-end funds, closed-end funds and ETFs; and
- *Bonds*: bonds that are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange, including treasury bonds, corporate bonds (bonds issued by listed companies) and convertible bonds.

The following table sets forth our securities brokerage business by product type (including brokerage trades in our margin financing and securities lending business) in terms of trading volume and market share for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	Trading volume	Market share <sup>(1)</sup>	Trading volume	Market share <sup>(1)</sup>	Trading volume	Market share <sup>(1)</sup>
	<i>(RMB in millions)</i>	<i>(%)</i>	<i>(RMB in millions)</i>	<i>(%)</i>	<i>(RMB in millions)</i>	<i>(%)</i>
<b>Securities</b>						
Stocks . . . . .	527,748	0.63	385,296	0.61	582,378	0.62
Funds . . . . .	2,545	0.20	3,510	0.22	4,643	0.16
Bonds . . . . .	1,142	0.10	1,003	0.07	1,284	0.06
Warrants <sup>(2)</sup> . . . . .	2,815	0.41	–	–	–	–
<b>Total</b> . . . . .	<b>534,250</b>	<b>0.61</b>	<b>389,809</b>	<b>0.59</b>	<b>588,305</b>	<b>0.60</b>

(1) Market share is calculated based on total trading volume of member securities firms of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

(2) All exchange-traded warrants reached their maturity and were discontinued by the regulatory authorities in China in 2011.

Our securities brokerage business consists of retail brokerage and institutional brokerage. As of December 31, 2011, 2012 and 2013, the trading volume of our retail brokerage business represented 98.1%, 97.6% and 98.1% of our total securities brokerage trading volume. As of December 31, 2013, we had approximately 1,340,000 retail brokerage customers and over 800 institutional brokerage customers.

Historically, segment revenue and other income from our securities brokerage business has represented the largest source of our total revenue and other income. In 2011, 2012 and 2013, segment revenue and other income from our securities brokerage business amounted to RMB706.1 million, RMB494.1 million and RMB678.9 million, respectively, representing 73.1%, 40.5% and 47.3% of our total revenue and other income during those years, respectively.

### *Margin financing and securities lending*

We obtained our qualification for margin financing and securities lending business from the CSRC in June 2012 and initiated the business in July 2012. Our margin financing and securities lending business is an important component of our capital-based intermediary businesses, characterized by its capital-intensive nature and associated credit exposure. See “Risk Factors – Risks relating to our Business and Industry – We may suffer significant losses from our credit exposures,” and “– Internal Control Measures – Margin Financing and Securities Lending Business.”

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In our margin financing business, we take collaterals from brokerage customers who wish to finance their securities purchases and offer financing to such customers, thereby enabling them to improve investment returns through financial leverage. We also lend securities held in our own accounts to brokerage customers through our securities lending services, enabling them to take advantage of potential short-selling opportunities in the market. Our agreements with customers typically include terms such as margin loan or securities lending amount, maturity date and interest rate. The annualized interest rates we currently charge for our margin financing and securities lending are 3.0% and 5.0%, respectively, above the PBOC benchmark interest rate of six-month loans for financial institutions. During the Track Record Period, the annualized interest rates we charged for our margin financing and securities lending were 8.6% and 10.6%, respectively. The interest rates we charge for margin financing and securities lending may change, subject to changes in the PBOC benchmark interest rates and the market conditions.

As of December 31, 2013, we offered margin financing and securities lending services at 54 of our 58 securities branches in China. As of the same date, 700 stocks and 13 ETFs were eligible for margin financing and securities lending in the PRC, and we offered margin financing services for 699 eligible stocks and 13 ETFs and offered securities lending services for five eligible ETFs. Our brokerage team collaborates with our research team to provide our margin financing and securities lending clients with professional investment analysis and research reports to assist them with product selection and risk management.

We qualified for margin refinancing in April 2013. Margin refinancing enables us to lend funds from third parties to our clients, thereby increasing the amount of funds available to our margin financing business, which in turn maximizes our return on equity. We are able to borrow from China Securities Finance or other authorized PRC financial institutions and lend the funds to our margin financing customers. As of December 31, 2013, the balance of our margin loans financed by China Securities Finance was RMB400.0 million. On April 15, 2013, we entered into a margin refinancing agreement with China Securities Finance, under which we can borrow up to RMB1.0 billion for a term not exceeding six months. Our margin refinancing agreement will expire in one year and is automatically renewable in the absence of a termination notice from either party. In return for the funds borrowed from China Securities Finance, which have a maturity term of six months, we agreed to pay an annual interest rate of approximately 7% and placed a 20% refundable deposit with China Securities Finance using a combination of cash and securities.

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

	As of or for the year ended December 31,	
	2012	2013
	<i>(RMB in millions)</i>	
Margin trading volume . . . . .	1,111.4	33,700.4
Margin loan balance . . . . .	210.8	2,259.5
Market value of securities lent . . . . .	–	7.3
Commission and fee income . . . . .	1.7	38.9
Interest income . . . . .	4.4	116.9
	6.1	155.8
Total interest and commission income . . . . .	6.1	155.8

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Since July 2012, our margin financing and securities lending business has grown rapidly and become an increasingly important source of our revenue and profit. Revenue from our margin financing and securities lending business consists primarily of interest income from margin financing and securities lending and brokerage commission income from margin trades by our customers. In 2012 and 2013, segment revenue and other income from our margin financing and securities lending business was RMB6.1 million and RMB155.8 million, respectively, and its segment results were RMB1.7 million and RMB88.1 million, respectively, during those years.

As of December 31, 2013, we had approximately 88,874 customers who were eligible for margin financing and securities lending, among which approximately 12,607 customers had opened accounts for margin financing and securities lending with us and approximately 6,392 had executed transactions with us, representing 14.2% and 7.2% of our eligible customer pool, respectively. As a result, we believe there is substantial growth potential in our margin financing and securities lending business. As part of our business strategy, we plan to actively expand our margin financing and securities lending business, which we estimate will require approximately RMB1,200 million and RMB500 million of additional capital in 2014 and 2015, respectively. We expect to finance our additional capital requirements using a combination of our cash and bank balances, cash flows from operating activities, funds from China Securities Finance and proceeds from our corporate bonds, as well as approximately 50.0% of the net proceeds from the Global Offering.

To mitigate the market and credit risks in our margin financing and securities lending business, we have established strict criteria for selecting new customers and a rigorous risk management system. We select customers with sound credit history and a strong risk tolerance. Generally, we require our customers to maintain brokerage accounts with us for at least six months and a minimum balance of RMB100,000 (lowered to RMB50,000 in May 2014) in their brokerage accounts upon their applications for margin financing and securities lending accounts. We also hold the securities acquired from margin financing or the funds received from short selling by our customers as collateral. We determine the credit limit we extend to a customer based on various factors, such as the value of their total assets maintained with us and their creditworthiness. We have also established a margin call risk management mechanism through which we monitor the value of our customers' collateral on a real-time basis. See “– Internal Control Measures – Margin Financing and Securities Lending Business.”

We allow our margin financing and securities lending clients to provide securities quoted on the Shenzhen Stock Exchange and the Shanghai Stock Exchange as collateral. Different discount rates apply when determining the value of the securities as collateral. The following table sets forth the applicable maximum discount rates as required by Shanghai Stock Exchange and Shenzhen Stock Exchange for various types of securities in our margin financing and securities lending business:

Type of securities	Discount rate
Treasury bonds . . . . .	95.0%
ETFs . . . . .	90.0%
Non-ETF listed securities investment funds and non-MOF bonds . . . . .	80.0%
SSE 180 Index and SZSE 100 Index constituent stocks . . . . .	70.0%
Non-ST stocks (excluding SSE 180 Index and SZSE 100 Index constituent stocks) . . . . .	65.0%
ST stocks . . . . .	0

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With further liberalization of the regulatory requirements, we believe that the categories and amounts of securities eligible for margin financing and securities lending will increase, the eligibility threshold of opening margin financing and securities lending accounts will decrease, and that institutional investors such as fund management firms and insurance companies will likely to become eligible to engage in the margin financing and securities lending business.

### *Futures brokerage*

We provide our futures brokerage services through our subsidiary, Central China Futures, which is a member of the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange and the China Financial Futures Exchange. As of December 31, 2013, we offer all of the futures products available in China, including 38 commodity futures, such as agricultural products, bullion, chemical products and metals, and two financial futures, namely, stock index futures and treasury-bond futures.

The following table sets forth our futures brokerage business by product type in terms of trading volume for the years indicated:

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in billions)</i>		
Commodity futures . . . . .	498.7	882.9	1,842.1
Financial futures . . . . .	192.4	218.1	429.8
<b>Total</b> . . . . .	691.1	1,101.0	2,271.9

As of December 31, 2013, we had five futures branches, including three branches in Henan, one in Dalian, Liaoning Province and one in Xianyang, Shaanxi Province. In addition, 26 of our 58 securities branches in China are qualified for conducting futures IB business, which allow these branches to introduce potential clients to Central China Futures. As of December 31, 2013, we had approximately 11,000 futures brokerage customers, of which approximately 7.6% were introduced to Central China Futures through futures IB business.

In 2011, 2012 and 2013, segment revenue and other income from our futures brokerage business amounted to RMB34.7 million, RMB50.0 million and RMB66.6 million, respectively, representing 3.6%, 4.1% and 4.6% of our total revenue and other income during those periods, respectively. As of December 31, 2011, 2012 and 2013, Central China Futures' margin balance for all clients amounted to RMB265.4 million, RMB479.0 million and RMB621.1 million, respectively.

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### *Wealth management*

In addition to traditional brokerage services, we seek to provide value-added and differentiated wealth management services based on the various needs of our customers. In 2009, we established “Central China Wealth (財富中原)” as our wealth management brand name. We classify our wealth management customers into three categories based on their wealth management needs and risk appetite: “self-service” (customers who rely little on our investment advice); “reference” (customers with moderate needs for investment advice); and “guidance” (customers with a high reliance on investment advice), and we provide different service packages to each category of customers and charge different commission rates:

- *Central China Express (中原快車)*: we provide standardized brokerage services, market information and advisory services to “self-service” customers;
- *Central China Bible (中原寶典)*: in addition to the basic services provided under Central China Express, we provide comprehensive market and industry information and investment advisory services to “reference” customers; and
- *Central China Housekeeper (中原管家)*: in addition to the comprehensive services provided under Central China Bible, we also provide “one-on-one” investment advice to “guidance” customers.

In return for our wealth management services provided under Central China Bible and Central China Housekeeper, we generally charge higher commission rates for brokerage trades conducted by “reference” and “guidance” customers. In 2011, 2012 and 2013, revenue from our value-added wealth management services was RMB0.1 million, RMB29.3 million and RMB55.3 million, respectively. The following table sets forth the brokerage commission rates and customer numbers of our wealth management services by product type as of December 31, 2013:

	<u>Central China Express</u>	<u>Central China Bible</u>	<u>Central China Housekeeper</u>
Brokerage commission rates . . .	Variable rates based on market conditions	0.04% to 0.1%	0.15%
Number of customers (in thousands) . . . . .	1,255.4	85.9	0.5

In addition, we provide asset custodian services to our institutional and high-net-worth clients, who deposit their non-tradable shares with us, and, in return, we offer various services, such as securities-backed lending and brokerage sales of non-tradable shares when restrictions are lifted, and wealth management services.



***Distribution of financial products***

In addition to brokerage services, we sell self-developed asset management products and third-party financial products, primarily fund products, through our securities branch network. Since the new regulation on agency sale of financial products in November 2012, we became qualified to engage in agency sale of more diverse financial products offered by third-party financial institutions in January 2013, such as those offered by trust companies and commercial banks. Revenue from the sale of our asset management products and third-party financial products was RMB8.4 million, RMB3.7 million and RMB5.4 million in 2011, 2012 and 2013, respectively.

The sales volume of our asset management products (excluding our cash management product, Yanhuang Huili) was RMB654.2 million, RMB286.9 million and RMB136.1 million in 2011, 2012 and 2013, respectively. In 2013, we launched our first cash management product, Yanhuang Huili, which invests principally in bank deposits and money-market funds. Yanhuang Huili had an outstanding balance of RMB173.7 million as of December 31, 2013.

Our sales volume of third-party financial products was RMB872.2 million, RMB3,246.0 million and RMB1,195.6 million in 2011, 2012 and 2013, respectively. In 2011 and 2012, all of the third-party financial products we sold were fund products, 91.8% of which were money-market funds, characterized by high liquidity and minimal credit risk. In 2013, we distributed RMB1,039.6 million of third-party fund products (principally money-market funds), representing 87.0% of all the third-party financial products we sold during the same year. We also distributed two third-party trust schemes in 2013 with a total sales volume of RMB156.0 million, which were guaranteed by government-sponsored entities or over-collateralized by properties. These two trust schemes had a minimum subscription amount of RMB1.0 million and were sold to sophisticated investors with higher risk tolerance. In addition, we monitor the performance and credit standing of third-party trust schemes on an ongoing basis.

We have been focusing on selecting prudent and high-quality trust schemes issued by trust companies with substantial capital and sound operating histories rather than pursuing sales volume. Following a one-off default incident in the PRC trust sector in early 2014, we continue to follow our product strategy and enhance our background review of third-party financial institutions and to carefully select third-party trust schemes for distribution. Meanwhile, we will continue to raise the risk awareness of our sales employees and sell third-party trust schemes only to eligible clients matching the product's risk profile. See “– Internal Control Measures – Securities Brokerage Business.”

During the Track Record Period, we have not found any incident of mis-selling or other improper conduct by our sales employees in distributing third-party financial products, and none of these financial products has experienced default. As a result, we believe that our internal control measures relating to the distribution of third-party financial products have been effective.

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### *Brokerage commission and fee income*

We receive commission and fee income from customers who trade securities and futures through our trading platforms. The following table sets forth the total brokerage trading volume and commission and fee income from our stock and fund brokerage and futures brokerage and the average securities brokerage commission rates for the years indicated:

	Year ended December 31,		
	2011	2012	2013
<b>Securities brokerage (stocks and funds)</b>			
Trading volume (RMB in millions) . . . . .	530,293	388,806	587,021
Commission and fee income (RMB in millions) . . . . .	659.6	463.2	672.6
Average securities brokerage commission rate . . . . .	0.124%	0.119%	0.115%
<b>Futures brokerage</b>			
Trading volume (RMB in billions) . . . . .	691.1	1,101.0	2,271.9
Commission and fee income (RMB in millions) . . . . .	27.3	39.0	53.2
<b>Total commission and fee income (stocks, funds and futures) (RMB in millions) . . . . .</b>	<b>686.9</b>	<b>502.2</b>	<b>725.8</b>

Due primarily to the intense competition in the brokerage market in Henan and China as a whole, our securities brokerage commission rates have decreased in recent years. As a result of our continuing efforts to provide value-added and differentiated wealth management products to our brokerage customers, our securities brokerage commission rates have recorded a slower decline since 2012. We expect the average securities brokerage commission rates in China may continue to decrease in the near future. See “Risk Factors – Risks Relating to Our Business and Industry – We generate a significant portion of our revenue from our securities brokerage business, and we cannot assure you that our brokerage commission and fee income can be sustained.”

To increase the competitive strengths of our securities brokerage business, we plan to implement the following:

- Transition of our conventional channel-based business model to value-added wealth management business for improving our average securities brokerage commission rates and diversifying our revenue source;
- Transition of our securities branches from traditional brokerage branches to comprehensive securities and financial services platforms that provide comprehensive investment and financing services and improve client service;
- Development of “light branches” to extend our customer reach and increase operational efficiency;
- Increasing cross-selling among different business lines and attracting more high-end individual customers;

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- Further differentiating customers based on their risk profiles and wealth management needs in order to provide more diversified and customized products and services; and
- Enhancing our IT-based service capabilities to offer comprehensive electronic securities services.

### *Clients*

As of December 31, 2013, we had over 1.3 million retail brokerage clients and over 800 institutional brokerage clients in our securities brokerage business, 67.0% of which are active clients. At the same date, we had approximately 11,000 clients in our futures brokerage business. The following table sets forth our brokerage business by type of client as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	<i>(in thousands)</i>		
Securities brokerage clients			
Retail clients . . . . .	1,268	1,314	1,343
Institutional clients . . . . .	1	1	1
Futures brokerage clients . . . . .	8	10	11
<b>Total clients . . . . .</b>	<b>1,277</b>	<b>1,325</b>	<b>1,355</b>

We maintain enduring and stable relationships with our clients. The following table sets forth our securities brokerage clients in terms of account age for the years indicated:

	As of December 31,					
	2011	(%)	2012	(%)	2013	(%)
	<i>(in thousands)</i>					
<b>Account Age</b>						
– ten years and above . . . . .	419	33.1%	433	33.0%	442	32.9%
– five to ten years . . . . .	88	6.9	341	26.0	470	35.0
– three to five years . . . . .	410	32.3	280	21.3	255	19.0
– less than three years . . . . .	351	27.7	260	19.8	177	13.2
<b>Total . . . . .</b>	<b>1,268</b>	<b>100.0%</b>	<b>1,314</b>	<b>100.0%</b>	<b>1,344</b>	<b>100.0%</b>

We have successfully maintained client loyalty. As of December 31, 2013, approximately 67.9% of our retail brokerage clients have maintained business relationships with us for more than five years, representing a considerable increase from 40.0% as of December 31, 2011, and approximately 32.9% of our retail brokerage clients have maintained business relationships with us for more than ten years.

Substantially all of our brokerage clients are individuals and corporations based in Henan. As of December 31, 2011, 2012 and 2013, 95.5%, 95.2% and 94.8% of our securities brokerage clients opened their accounts in our securities branches in Henan, respectively. See “Risk Factors – Risks relating to Our Business and Industry – We face the risks of concentration of customers and business in Henan.”

*Branch network and trading platforms*

According to the Securities and Futures Association of Henan, we have the most extensive branch network coverage among all securities firms with a presence in Henan. As of the Latest Practicable Date, we had 62 securities branches across the 18 prefecture-level cities in Henan and 12 major cities in China, such as Beijing, Shanghai and Shenzhen. In addition, we have five futures branches, including three in Henan, one in Dalian, Liaoning Province and one in Xianyang, Shaanxi Province. Our branch network in Henan covers all the prefecture-level cities in the province and our branches outside Henan are strategically located at “Bohai Rim,” “Yangtze River Delta,” “Pearl River Delta” and alongside the “Beijing-Guangzhou Railway,” one of the most important railway lines in China connecting the north and south of China. In January 2014, 16 of our securities branches were awarded “Top 100 Securities Branches – I Am the Shareholder” by the Shanghai Stock Exchange. As of December 31, 2011, 2012 and 2013, we have 52, 54 and 58 securities branches, respectively. The following diagram illustrates the cities serviced by our branch network as of the Latest Practicable Date:



We have been transitioning our branches from conventional brokerage branches to comprehensive securities and financial services platforms that provide integrated investment and financing services and improve client service. We completed the transition of 36 key securities branches to comprehensive securities and financial services platforms in the first quarter of 2014 and we expect to complete the transition of our remaining securities branches by the end of 2014.

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With the deregulation of PRC requirements on securities branches in terms of scale, region and on-site trading facilities, we started to establish “light branches” in 2014, which have fewer on-site staff and focus more on client coverage for increased operating efficiency. A “light branch” is usually less than 200 square meters in size and requires less than RMB500,000 in establishment cost. We plan to set up more “light branches” in more developed counties in Henan to lower our operating costs and expand our network coverage more quickly. In addition, we plan to set up “light branches” in strategic locations outside Henan in order to quickly capture the local markets prior to developing a comprehensive securities and financial services platform.

We provide clients with a variety of trading platforms. Our clients can trade at physical trading counters in our branches, or trade remotely via telephone, Internet or mobile device. Online trading has become the primary trading method for our securities brokerage clients. In 2013, our online trading volume accounted for approximately 83% of our total securities brokerage trading volume.

In early 2014, we launched our electronic securities platform, which enables us to expand our customer reach beyond the physical boundaries of our securities branches and reduce our operating costs. We believe that our electronic securities platform is complementary to our existing securities branches across China, which we expect together will deliver targeted customer sales and marketing, customer-friendly experience, more diverse products offering and enhanced transaction convenience. Going forward, we intend to improve this online platform by enhancing customer experience, offering more diverse wealth management products electronic securities and integrating our corporate website, online trading portal and other internal resources into this online platform. See “Risk Factors – Risks relating to Our Business and Industry – We face increasing risks as new business initiatives lead us to offer new products and services, transact with a broader array of customers and conduct business through new marketing platforms.”

### *Marketing and customer services*

Our sales and marketing team consists primarily of client managers who are our employees and securities brokerage agents who are third parties. Both the client managers and the securities brokerage agents receive performance-based remuneration. As of December 31, 2013, we had 686 client managers and 219 securities brokerage agents. In addition to client development through our online platform, phone calls, in-person meetings and investor education events, we seek to capture cross-selling opportunities among our business lines. For example, our investment banking business refers institutional clients holding non-tradable shares to our brokerage business.

We strive to meet client needs through high-quality client services. In addition to our website, we provide 24/7 real-time assistance through our customer service hotline “967218,” including answering inquiries about products, trading rules, account status and trading software. In addition, we provide brokerage clients with our investment analysis and recommendations of stocks, funds and other financial products via text messages and emails. To increase customer loyalty and promote differentiated services, we assign dedicated investment consultants to provide the high-end customer with personalized brokerage and wealth management services.

**Investment Banking**

Our investment banking business primarily provides comprehensive corporate finance services to our institutional clients, including equity and debt financing and financial advisory services. During the Track Record Period, we have provided investment banking services to over 70 clients. Our investment banking business collaborates closely with our other business lines, such as brokerage, asset management and direct investment, to promote cross-selling and further expand our investment banking client base.

During the Track Record Period, we received the following major awards in connection with our investment banking business:

- “Best Investment Bank for Secondary Offerings” by Securities Times in 2013;
- “Best Chief Agency Broker for the NEEQ” by Securities Times in 2013;
- “Innovation Prize of Financial Advisory Projects” granted by the Shenzhen Stock Exchange and Securities Times in 2012; and
- “Investment Bank with the Highest Growth Potential” by Securities Times in 2011.

In 2011, 2012 and 2013, segment revenue and other income from our investment banking business amounted to RMB74.5 million, RMB172.8 million and RMB164.9 million, respectively, representing 7.7%, 14.2% and 11.5% of our total revenue and other income during those periods, respectively.

***Equity financing***

We underwrite IPOs and secondary offerings, principally rights issues and private placements. We had 19 sponsor representatives and had an additional nine candidates who are in the process of applying for such qualification as of the Latest Practicable Date. We receive underwriting commissions and fees based on the size and type of financing, duration of our engagement and complexity of the transaction as well as market conditions.

During the Track Record Period, we completed six private placements, one rights issue and one IPO, raising an aggregate amount of RMB12.1 billion. We have not sponsored any IPO transactions in 2012 and 2013, as the CSRC temporarily suspended the reviews of IPO applications beginning in October 2012. This suspension was lifted in January 2014.

- *IPO*: We acted as the lead underwriter in the listing of Shanxi C&Y Pharmaceutical Company Limited (山西仟源製藥股份有限公司) on the ChiNext Board of the Shenzhen Stock Exchange, in which we have underwritten an amount of RMB439.4 million at a commission rate of 8.2%. This was our first IPO project on the ChiNext Board.

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- Secondary offering:* We focused primarily on underwriting of secondary offerings during 2012 and 2013, given the suspension of IPO reviews by the CSRC. In 2012 and 2013, we completed five private placements and one rights issue as a lead underwriter, raising an aggregate amount of RMB6,275.0 million. In 2012, we also acted as a co-lead underwriter in the private placement by Henan Da You Energy Company Limited (河南大有能源股份有限公司), in which we have underwritten an amount of RMB5,353 million. In 2012 and 2013, the average commission rate we received for secondary offerings was 0.9% and 3.2%, respectively. The lower average commission rate we received in 2011 compared to 2012 was due primarily to the lower commission rate we charged for the private placement by Henan Da You Energy Company Limited with a substantial size of financing.

The following table sets forth certain details of the equity financing transactions in which we acted as a lead or co-lead underwriter during the Track Record Period:

Year	Nature of offering	Issuer	Underwriting amount	Industry	Our role
			<i>(RMB in millions)</i>		
2013. . . .	Private placement	鄭州煤電股份有限公司 (Zhengzhou Coal & Electric Co. Ltd.)	600	Coal	Lead underwriter
2013. . . .	Private placement	河南輝煌科技股份有限公司 (Henan Splendor Science & Technology Co., Ltd.)	714	Technology	Lead underwriter
2013. . . .	Private placement	河南羚銳製藥股份有限公司 (Henan Lingrui Pharmaceutical Company Limited)	217	Pharmaceutical	Lead underwriter
2013. . . .	Private placement	河南森源電氣股份有限公司 (Henan Senyuan Electric Company Limited)	716	Manufacturing	Lead underwriter
2012. . . .	Private placement	河南神火煤電股份有限公司 (Henan Shenhua Coal Electricity Company Limited)	1,817	Nonferrous metals	Lead underwriter
2012. . . .	Private placement	河南大有能源股份有限公司 (Henan Da You Energy Company Limited)	5,353	Coal	Co-lead underwriter
2012. . . .	Rights issue	鄭州宇通客車股份有限公司 (Zhengzhou Yutong Group Company Limited)	2,211	Automobile	Lead underwriter
2011. . . .	IPO	山西仟源製藥股份有限公司 (Shangxi C&Y Pharmaceutical Company Limited)	439.4	Pharmaceutical	Lead underwriter

During the Track Record Period, a substantial majority of the clients in our equity financing business were well-known state-owned enterprises or privately-owned entities based in Henan within diverse industry sectors, such as coal, pharmaceutical, automobile, nonferrous metals, technology and manufacturing. We will continue to focus on providing underwriting and sponsorship services to large and state-owned enterprises in Henan, as well as to SMEs that demonstrate significant growth potential.



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### *Debt financing*

In our debt financing business, we underwrite fixed-income securities, such as enterprise bonds, municipal bonds and corporate bonds. During the Track Record Period, as a lead underwriter, we completed 11 debt financing transactions, with a total amount underwritten of RMB14.1 billion. Our debt financing business has expanded rapidly, with a total debt amount underwritten by us increasing from RMB0.8 billion in 2011 to RMB4.9 billion in 2012 and further to RMB8.4 billion in 2013. The following table sets forth certain details of the debt financing transactions in which we acted as a lead underwriter during Track Record Period:

Year	Issuer	Underwritten amount <i>(RMB in million)</i>	Industry	Type
2013	Pingdingshan Tianan Coal Mining Company Limited (平頂山天安煤業股份有限公司)	4,050	Coal	Corporate bonds
2013	Panjin Petroleum High-tech Industrial Park Development Construction Company Limited (盤錦石油高新技術產業園開發建設有限責任公司)	750	City construction and investment	Enterprise bonds
2013	Xuchang Investment Construction Limited (許昌投資建設總公司)	1,200	Infrastructure	Municipal bonds
2013	Puyang Construction Investment Company Limited (II Phase) (濮陽市建設投資公司(二期))	500	Infrastructure	Municipal bonds
2013	Luoyang Urban Development Investment Group Company Limited (洛陽城市發展投資集團有限公司)	1,200	Infrastructure	Municipal bonds
2013	Zhengzhou Apartment House Construction Investment Company Limited (鄭州公共住宅建設投資有限公司)	700	Infrastructure	Municipal bonds
2012	Pingdingshan Development Investment Company Limited (平頂山市發展投資公司)	1,140	Infrastructure	Municipal bonds
2012	Puyang Construction Investment Company Limited (濮陽市建設投資公司)	500	Infrastructure	Municipal bonds
2012	Zhumadian Investment Company Limited (駐馬店市投資有限公司)	1,300	Infrastructure	Municipal bonds
2012	Henan Railway Investment Company Limited (河南鐵路投資有限責任公司)	2,000	Infrastructure	Municipal bonds
2011	Henan Wanji Aluminium Company Limited (河南萬基鋁業股份有限公司)	800	Nonferrous metal	Enterprise bonds

Among the 11 debt financing transactions which we completed during the Track Record Period, eight were municipal bond transactions issued by the financing entities incorporated by various local governments in Henan, such as Zhengzhou, Luoyang and Xuchang, with the total amount underwritten by us of RMB8.5 billion. As of the Latest Practicable Date, we have entered into cooperative framework agreements with 12 local governments in Henan primarily for providing financing services to local enterprises. These framework agreements typically have a term of five years and cover key areas of cooperation, including: (i) providing equity and debt financing (such as municipal bonds and corporate bonds) to local enterprises; (ii) providing

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M&A and OTC advisory services; (iii) making direct investments in local enterprises; (iv) providing asset-based securitization and asset management services to local governments; and (v) providing other securities services in local communities. Our cooperative framework agreements enable us to gain an advantage over our competitors as we seek to capture local securities business opportunities. Our PRC legal advisors, Beijing Junzhi Law Offices, have confirmed that these framework agreements with local governments are legally binding. In March 2013, we underwrote RMB4,050 million of corporate bonds issued by Pingdingshan Tian'an Coal Company Limited (平頂山天安煤業股份有限公司), the largest corporate bond offering in Henan in 2013. We have expanded our debt financing business outside Henan since 2013, and we underwrote RMB750 million of enterprise bonds issued by a city developing company based in Liaoning Province.

We charge underwriting commissions and fees on debt financing transactions based on comparable market fee rates, the size of financing and market conditions. In 2011, 2012 and 2013, the average commission rate we charged for debt financing was 1.5%, 0.9% and 1.0%, respectively.

As part of our business strategy, we intend to diversify our debt financing products to include perpetual bonds and SME private bonds.

### *Financial advisory*

We provide financial advisory services in various transactions for our clients, including, among others, M&A, asset restructuring, debt restructuring and refinancing transactions. We charge advisory fees based on the type and size of the transactions as well as specific terms of each assignment.

In addition, we provide recommendation services as chief agency broker to help private companies to enter into the NEEQ (also known as the "New OTC Board") for share quotation and transfer. We charge advisory fees for our recommendation services comparable to market standards. In 2012, we recommended nine private companies for share quotation on the NEEQ, ranking first among all PRC securities firms in China. In 2013, we recommended three private companies for share quotation on the NEEQ, ranking ninth among all PRC securities firms.

Our commission and fee income for financial advisory services was RMB26.8 million, RMB70.6 million and RMB12.0 million in 2011, 2012 and 2013, respectively.

During the Track Record Period, we have served as the financial advisor in over 40 transactions. Major clients of our financial advisory business include SOEs in Henan, such as Zhongyuan Dadi Media Company Limited (中原大地傳媒股份有限公司), Henan Energy and Chemical Industry Group Co., Ltd. (河南能源化工集團有限公司), Yima Coal Group Company Limited (義馬煤業集團股份有限公司), Pingdingshan Tian'an Coal Company Limited (平頂山天安煤業股份有限公司), Shenma Industrial Company Limited (神馬實業股份有限公司) and Zhengzhou Coal Electricity Company Limited (鄭州煤電股份有限公司). Most of our clients that we have recommended for the NEEQ are SMEs with high growth potential and operate primarily in the manufacturing and technology industries.

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Some landmark transactions for which we provided financial advisory services include:

- In 2013, we acted as the independent financial advisor for the corporate merger between Henan Coal Chemical Industry Group Co., Ltd. (河南煤業化工集團) (the largest corporation in Henan and a Fortune 500 company) and Yima Coal Group Company Limited (義馬煤業集團股份有限公司) (the third largest corporation in Henan).
- Between 2012 and 2013, we acted as the independent financial advisor for the major asset restructuring and ancillary financing by Zhengzhou Coal Electricity Company Limited (鄭州煤電股份有限公司). This restructuring was valued at approximately RMB4.2 billion, supplemented by RMB600.0 million of ancillary financing. This transaction was the first and only major asset restructuring in Henan involving a listed company with ancillary financing.
- In 2012, we acted as the independent financial advisor for Zhongyuan Dadi Media Company Limited (中原大地傳媒股份有限公司) in its backdoor listing on the Shenzhen Stock Exchange, the first IPO by a media company in Henan, for which we won the “Innovative Financial Advisor” award by the Shenzhen Stock Exchange.

### **Investment Management**

Our investment management business includes asset management, direct investment and fund management. We commenced our asset management business in 2003 and our AUM has achieved stable growth. Direct investment and fund management are our emerging businesses which we started in 2012 and 2013, respectively.

#### ***Asset management***

Our asset management products and services primarily include:

- *Collective asset management scheme*: we manage client assets for a group of clients while keeping client assets in designated accounts pursuant to applicable laws and in accordance with collective asset management contracts; and
- *Targeted asset management scheme*: with each scheme, we manage assets for a single client pursuant to the specific terms of the bilateral contract between the client and us through a designated account.

As of December 31, 2013, we had eight outstanding collective asset management schemes, including equity-linked, FOF, money market and hybrid schemes. We generally charge annual management fees between 0.3% and 2.0% of the amount of AUM. We also charge performance fees on some of our products. As of December 31, 2011, 2012 and 2013, the total amount of AUM of our collective asset management schemes was RMB1,027.0 million, RMB1,174.1 million and RMB1,389.0 million, respectively.

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The following table sets forth a summary of our outstanding collective asset management schemes as of December 31, 2013:

Product name	Year of establishment	Type	AUM <i>(RMB in millions)</i>	Annual management fee		Performance fee	Funds contributed	Duration
							by us <i>(RMB in millions)</i>	
Yanhuang No. 1 <sup>(1)</sup> . . .	2011	FOF	499.3	0.8%		20% when annualized return on investment exceeds 5.4%	52.4	4 Years
Yanhuang No. 2 <sup>(2)</sup> . . .	2012	Equity-linked	35.6	1.2%		20% when annualized return on investment exceeds 5.4%	13.7	8 Years
Yanhuang Huili. . . .	2013	Money Market	173.7	0.7%		30% when annualized return on investment exceeds comparable benchmark (demand deposit + 0.2%)	–	3 Years
Lianmeng No. 1 . . .	2013	Hybrid	32.0	0.5%		50% when annualized return on investment exceeds 7.5%	–	1 Year
Lianmeng No. 2 . . .	2013	Hybrid	61.3	0.3%	N/A		–	1 Year
Lianmeng No. 3 . . .	2013	Hybrid	101.8	0		100% above the anticipated return, usually 6.0% to 7.5%, when such anticipated return is exceeded	–	2 to 6 Months
Lianmeng No. 5 . . .	2013	Hybrid	224.3	2.0%	N/A		–	1 Year
Lianmeng No. 6 <sup>(3)</sup> . . .	2013	Hybrid	260.9	2.0%	N/A		50.7	1 Year

- (1) According to IFRS 10 effective from January 1, 2013, we have consolidated Yanhuang No.1 as a structured entity into our balance sheet since May 2013. As of December 31, 2011, 2012 and 2013, the net asset value of Yanhuang No.1 was RMB1,027.0 million, RMB715.0 million and RMB499.3 million, respectively. The decrease in net asset value was due primarily to client redemptions and our investment losses on Yanhuang No.1 during the Track Record Period.
- (2) According to IFRS 10 effective from January 1, 2013, we have consolidated Yanhuang No.2 as a structured entity into our balance sheet since April 2013. As of December 31, 2012 and 2013, the net asset value of Yanhuang No.2 was RMB469.2 million and RMB35.6 million, respectively. The substantial decrease in net asset value was primarily caused by client redemptions in 2013.
- (3) According to IFRS 10 effective from January 1, 2013, we have consolidated Lianmeng No.6 as a structured entity into our balance sheet since October 2013. We launched Lianmeng No. 6 in October 2013 and its net asset value was RMB260.9 million as of December 31, 2013.

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To promote the sale of our first collective asset management scheme, Yanhuang No. 1, and to raise investor confidence in our asset management business, we contributed our own funds of RMB60.0 million under this scheme at its inception in May 2011, and offered credit enhancement pursuant to which we agreed to provide compensation to eligible clients (who purchased this scheme at its inception and held their investments to maturity) to the extent that if the unit net asset value is lower than the face value at maturity in May 2015, we are responsible for compensating client losses up to the fair value of our own funds. We may lose part or all of our fund contribution of RMB60.0 million under Yanhuang No. 1. As of April 30, 2014, the fair value of our own fund contribution was RMB47.3 million, after a cumulative realized loss of RMB12.7 million. In 2013 and the four months ended April 30, 2014, we have set aside RMB25.3 million and RMB22.1 million, respectively, of provisions for potential liabilities for our credit enhancement under this scheme. As of April 30, 2014, we had fully provisioned against the maximum exposure under Yanhuang No. 1. In other words, even if the net value of this scheme continues to decrease, we will not incur any additional provisions or liabilities. At each balance sheet date, we will reassess the provisions based on our best estimate of our potential liabilities. However, we may reverse some or all of our provisions and may record a profit if the net value of this scheme increases to a certain extent during its remaining term.

In addition, we also contributed our own funds under the Yanhuang No. 2 and Lianmeng No. 6 collective asset management schemes, but without us offering credit enhancement. The proportion of our own fund contribution under each of these collective asset management schemes and Yanhuang No.1 complies with relevant CSRC guidelines. None of our other collective asset management schemes has our own fund contribution nor do we offer credit enhancement. We do not have any plans to offer new collective asset management schemes with credit enhancement features in the near future.

Our product strategy has switched to collective asset management schemes with stable returns and steady underlying investments, such as fixed-income-based schemes and quantitative trading-based schemes. We implement enhanced internal control measures in relation to Yanhuang No. 1, such as imposing a stop-loss threshold of 10% for a single security and requiring the value of a single security held to be no more than 10% of the total value of our investment portfolio under this scheme. Given that Yanhuang No.1 collective asset management scheme principally invests in the equity market and its operating record has outperformed the CSI 300 Index since its inception in May 2011, we believe that our investment strategies and internal control measures have generally been effective.

We enter into a targeted asset management contract with a single institutional client, pursuant to which we provide asset management services, such as trading in a portfolio of equity securities, trust products and bank deposits, on behalf of such client through the accounts under the client's name. In general, our targeted asset management schemes have a minimum subscription amount of RMB50 million and have a term of one to two years. In return for our services, we receive management fees primarily in the range of 0.05% to 0.2% of the AUM. As of December 31, 2011, 2012 and 2013, the outstanding balance of our targeted asset management schemes was RMB49.2 million, RMB6,190.6 million and RMB974.1 million, respectively. Given the substantial increase in market demands for channel-based targeted asset management schemes in 2012, the AUM of our targeted asset management schemes increased significantly in 2012. As channel-based targeted asset management schemes are generally associated with lower management fees and higher reliance on third parties, our asset management business did not focus on this type of product in 2013 and, as a result, the AUM of our targeted asset management schemes decreased in 2013.

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In 2011, 2012 and 2013, revenue from our asset management business was RMB17.3 million, RMB12.3 million and RMB2.8 million, respectively. The substantial decrease in our revenue from this business in 2013 was due to the RMB25.3 million of provisions we made for potential liabilities under the Yanhuang No. 1 collective asset management scheme.

In March 2013, the CSRC issued the Administrative Measures on Asset Securitization of Securities Companies (證券公司資產證券化業務管理規定), which further promotes and supports the development of the asset securitization business. We believe such regulatory developments will help us diversify our asset-backed securitization portfolios and expand our asset management business. On March 17, 2014, the CSRC approved our first asset-backed securitization scheme, under which we act as the asset manager and underwriter for an offering and sale of RMB500.0 million of securities, collateralized by receivables from a toll-bridge located in Inner Mongolia. These receivables-backed securities have a maturity term of six years and were offered to PRC institutional investors in May 2014 under an asset management scheme we developed.

### *Direct investment*

We operate our direct investment business through our wholly-owned subsidiary, ZDKY Venture Capital, which we established in February 2012. ZDKY Venture Capital primarily makes equity investments in private companies that we believe have potential for capital appreciation. In January 2014, the CSRC legislated to permit securities firms in China to make direct debt investments through their direct investment subsidiaries. We intend to actively develop this new business in 2014.

We make direct equity investment and earn capital gains by exiting from these investments through share transfers or IPOs. We make debt or equity-linked investments and earn interest income until maturity or capital gains after converting our debt investments into equity. In 2013, we exited from our equity-linked investments in two Henan-based companies operating in the chemical and civil engineering industries and earned a total interest income of RMB4.3 million. As of December 31, 2013, we held total equity investments of RMB38.3 million in two private companies operating in the technology and machinery industries. The following table sets forth a summary of our direct investments as of December 31, 2013:

<u>Year of investment</u>	<u>Industry of invested company</u>	<u>Type of investment</u>	<u>Investment size</u> <i>(RMB in millions)</i>	<u>Equity interest in the invested company</u>
2013 . . . . .	Technology	Equity	18.3	6.0%
2012 . . . . .	Machinery	Equity	20.0	11.0%



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Before we have identified any investment target or after we have exited from an investment, we generally invest our surplus cash into short-term and liquid cash management products issued by reputable financial institutions. As of December 31, 2013, ZDKY Venture Capital invested RMB75.0 million in cash management products issued by China Merchants Bank.

In 2014, we plan to explore potential investment opportunities in Henan-based companies operating in the financial services and agricultural industries. We also intend to increase the registered capital ZDKY Venture Capital after the Global Offering by RMB200.0 million. See “Future Plans and Use of Proceeds.”

In December 2012, ZDKY Venture Capital established its investment subsidiary, ZZKY Venture Capital, in which it holds 60.0% of the equity interest, for managing venture capital funds. An investment company owned by Luoyang municipal government holds the remaining 40.0% of equity interest. In September 2013, as a general partner, ZZKY Venture Capital formed a limited partnership fund, ZZKY Venture Capital Fund, together with various limited partners, including ZDKY Venture Capital. ZZKY Venture Capital Fund has a registered capital of RMB110.0 million and focuses primarily on venture capital investment opportunities in Henan.

### ***Fund management***

We operate our fund management business through our subsidiary, Ashmore-CCSC Fund Management, which we established in January 2013. We hold 51.0% of the equity interest in Ashmore-CCSC Fund Management, with the remaining 49.0% of equity interest held by Ashmore Investment Management Ltd., a well-known investment management company based in London dedicated to emerging markets. Ashmore-CCSC Fund Management specializes in fund formation and distribution as well as management of separately managed accounts. We primarily earn management and performance fees in our fund management business. In May 2013, Ashmore-CCSC Fund Management distributed two fund products under separately managed accounts. According to IFRS 10 effective from January 1, 2013, we have consolidated one of the these fund products, Alpha Phase I, as a structured entity into our balance sheet as of December 31, 2013, with a net asset value of RMB10.4 million.

### **Proprietary Trading**

We engage in the trading of stocks, bonds, funds, derivatives and other financial products permitted by the CSRC through proprietary funding for our own account based on our risk management policies and market conditions.



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The following table sets forth the daily average investment amount, net revenue and investment return for our proprietary trading activities by asset class for the years indicated<sup>(1)</sup>:

		<b>Year ended December 31,</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>(RMB in millions, except percentages)</i>		
Stocks and funds . . . . .	Average investment amount	1,000.9	491.2	521.8
	Average return (%)	(14.7)	14.5	0.9
Bonds . . . . .	Average investment amount <sup>(2)</sup>	1,999.1	1,655.7	1,425.0
	Average return (%)	4.2	12.5	8.4
Others <sup>(3)</sup> . . . . .	Average investment amount	–	14.6	33.4
	Average return (%)	–	4.8	(0.6)
Total . . . . .	Average investment amount	3,000.0	2,161.5	1,980.2
	Average return (%)	(2.1)	12.9	6.3

(1) Calculated as follows: (i) average investment amount = aggregate of daily funds used by our proprietary trading activities/365; (ii) net revenue = income associated with proprietary trading business (including but not limited to investment income and interest income) - cost associated with proprietary trading business (including but not limited to cost of funding and interest cost) and (iii) average return = net revenue/average investment amount.

(2) Net of bonds sold under repurchase agreements, and includes investments made for liquidity management purposes.

(3) Includes primarily net revenue from stock index futures.

In 2011, due primarily to the significant volatility in the PRC stock market, we recorded an RMB53.2 million loss in our proprietary trading business. To further mitigate the adverse impact of significant market fluctuations on our proprietary trading business, we have since 2012 strengthened our internal control measures and hedging activities to manage the risks in our proprietary trading business. See “– Internal Control Measures – Proprietary Trading.” In 2012 and 2013, segment revenue and other income from our proprietary trading business amounted to RMB324.1 million and RMB204.0 million, respectively, representing 26.6% and 14.2% of our total revenue and other income during those periods, respectively.

We emphasize prudent operation and value investing in our equity trading and aim to achieve stable returns while minimizing risks. We formulate our investment strategy annually which determines the investment scale and risk exposure for our proprietary trading activities, based on our financial condition, stock research and market conditions. Since 2012, in addition to our annual investment strategy meeting, we have convened investment strategy meetings on a quarterly basis to reassess and adjust our maximum risk exposure and investment scale as well as industry focus in our equity trading for the next quarter. In addition, we also call special meetings to adjust our investment strategies following any material changes in market conditions. Since 2012, we have adopted more stringent stop-loss procedures, including imposing stop-loss point for a single equity security. Our maximum risk exposure in equity trading activities represents the maximum allowable loss (both realized loss and fair value loss) in our trading activities determined by our Board during a period. We are required to gradually reduce our investment positions to stop-loss when the loss on our equity investments exacerbates. When our investment loss approaches our maximum risk exposure, we will commence liquidating our equity positions to avoid reaching our maximum risk exposure. In

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2011, our maximum risk exposure was RMB150.0 million. As we allocated more capital to expand our capital-based intermediary businesses since 2012, we have reduced the investment scale of our proprietary trading activities and lowered our annual maximum risk exposure to RMB60.0 million to optimize our capital efficiency.

In order to control the market risk relating to our proprietary equity trading, we engage in hedging activities through trading in CSI 300 Index futures that are traded on the China Financial Futures Exchange. We determine the scale of stock index futures we buy or short-sell based on the positions we hold in equity securities. By engaging in such hedging activities using CSI 300 Index futures, we can effectively reduce the volatility of our securities portfolio, and enhance the stability and reliability of our proprietary trading activities. As of December 31, 2013, the net hedging position in our equity trading activities was RMB95.8 million with a hedging ratio of approximately 50%. See “– Internal Control Measures – Proprietary Trading.”

We believe that our investment and hedging strategies have generally been effective, considering that (i) our annual returns on equity investments outperformed the CSI 300 Index during the Track Record Period, and (ii) our proprietary trading activities were conducted well within our authorized maximum risk exposure during the Track Record Period.

For our proprietary bond trading, we maintain strict control over our investment horizon, and most of our bond investments include short-term and mid-term bonds which mature within three to five years. To minimize credit risk, we invest principally in long-term bonds that are rated AA or higher and short-term bonds that are rated A-1 in China, as well as treasury bonds. Most of our bond investments are rated by reputable credit rating agencies in China, including China Cheng Xin International Credit Rating Co., Pengyuan Credit Rating Co., Ltd., China Lianhe Credit Rating Co., Ltd., Dagong Global Credit Rating Co., Ltd. and Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. During the Track Record Period, we also invested in unrated private bonds issued by a quality SME. As of December 31, 2013, we held RMB10.0 million of private bonds issued by an SME in China, representing 0.3% of our total bond investments. The bonds bear an interest rate of 9.99% per year and mature in June 2015. Given that we regularly monitor this issuer’s credit standing and this SME issuer has been profitable during the last three consecutive years, we consider the default risk on these unrated bonds to be relatively low. In line with our investment strategy, we plan to exercise our put option under the bonds in June 2014 and to claim the principal of our investment.

To increase our leverage ratio and improve yields on our bond investments, we actively engage in bond repurchase transactions in the interbank market or through stock exchanges. We enter into short-term repurchase agreements with counterparties (such as banks and other financial institutions), under which we sell our bond investments to the counterparty and agree to repurchase such assets at predetermined prices on the maturity date of the repurchase agreement. Bond repurchase transactions enable us to leverage on our bond holding and improve our return on equity by reducing the total cost of funds. In addition, we enter into short-term resale agreements with counterparties (such as banks and other financial institutions), under which we are entitled to receive interest income by purchasing financial assets (such as bonds and notes) from the counterparty and agreeing to resell such assets back to the counterparty at predetermined prices on the maturity date of the agreement. Bond resale transactions enable us to mobilize our surplus cash during unfavorable market conditions by investing in liquid and low-risk financial assets.

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Starting in December 2012, we have also provided dealer-quoted bond repurchase products which serve as a cash management and short-term investment instrument for our brokerage clients. We pledge the bonds we own to CSDCC as collateral in order to obtain short-term funds from our clients and, in return, we offer our clients higher interest rates compared to those offered by bank deposits of similar maturity. Dealer-quoted bond repurchase enable us to borrow up to 90.0% of the value of these pledged bonds and such products also improve our client's return on short-term funds while ensuring the liquidity of their investments. As of December 31, 2013, the balance of our dealer-quoted bond repurchase products was RMB16.6 million.

### **Other Innovative Business**

We recently launched a number of capital-based intermediary businesses, such as securities-backed lending and securities repurchase, to take advantage of opportunities arising from deregulation in the financial industry and fast-growing securities market in China.

In securities-backed lending, our clients pledge their securities to us as collateral and we use our own funds to provide lending to our clients in return for an interest. In a securities repurchase transaction, we purchase securities from clients under a repurchase agreement which provides that our clients shall buy back the securities at predetermined prices and within a specified period of time. Our securities-backed lending and securities repurchase businesses help our clients obtain short-term liquidity without a fire sale of their securities and also offer opportunities to mobilize their idle assets. The interest rate we charge for these services is generally comparable to that of our margin financing service and subject to market conditions. Subject to regulatory requirements and restrictions, we plan to gradually expand the variety of our capital-based intermediary services to better meet our clients' financing needs. As of December 31, 2013, the outstanding balance of our securities-backed lending and securities repurchase businesses was RMB254.6 million and RMB72.1 million, respectively. According to the CSDCC, the aggregate market value of securities in our client accounts amounted to approximately RMB119.9 billion as of December 31, 2013, providing a substantial amount of potential assets available for our securities-backed lending and securities repurchase businesses.

We closely follow developments in the PRC securities industry and intend to apply for the qualifications to offer innovative products and services, such as individual stock options, NEEQ market-making and interest-rate swaps, after these products are launched in the near future.

- An individual stock option refers to a standardized contract designed by the stock exchange where a counterparty has the right to purchase, or sell, the underlying securities at a pre-determined price on a specified date. It is widely used as a risk management and investment management means in developed financial markets in the world. We closely follow the developments of the Shanghai Stock Exchange and are among the first batch of PRC securities firms involved in the pilot testing of individual stock options. We have committed resources and efforts in the preparation for the launch of such products, including formulating product protocols, developing suitable IT systems and preparing investors education programs. We intend to join the first batch of PRC securities firms to launch individual stock options and we believe this new product will contribute to our continued profit growth.

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- NEEQ market-making refers to a service offered by a securities firm such that it continuously releases two-way quotations and transacts with investors in the NEEQ system. We can earn the bid-ask spread and commission fee rebates from such service and believe that such service will expand our source of income and enhance our investment banking capability. We have committed resources and efforts to prepare for the launch of NEEQ market-making, including drafting product protocols, developing business strategies and selecting eligible companies quoted on the NEEQ. We intend to join the first batch of PRC securities firms applying for the qualification to offer NEEQ market-making service based on product launch timetable.
- In an interest-rate swap, two counterparties, usually based on a specified nominal amount, agree to exchange interest cash flows from a fixed rate to a floating rate (or vice versa) during a period to manage their interest risk exposure. We believe the introduction of interest-rate swaps will diversify our proprietary trading business and manage our finance costs. Once qualified, we intend to offer interest-rate swaps and interest rate management services to institutional clients and earn revenue from interest-rate spreads and services fees.

In addition, we focus on product innovation and intend to continue to enhance our innovative capabilities and to develop new securities products and services serving our business needs, subject to PRC regulatory requirements and restrictions.

## RESEARCH

We established our research center in Shanghai in 2002 and set up a sub-division in Zhengzhou in 2013 to better service our customers in Henan. Our research team covers macro-economic analysis, industry sectors and listed companies, investment strategies, quantitative research, financial innovation and QFII-related services. Our stock research covers over 492 public companies and 18 industries, including 38 publicly-listed companies based in Henan. Our research team provides research reports and regular updates to our brokerage customers, assisting them in identifying and evaluating investment opportunities. In addition, our research team provides valuable support to our other business lines, such as our proprietary trading, asset management and investment banking businesses.

As of December 31, 2013, our research team consisted of 25 research analysts, of which six held doctorate degrees, 14 held master's degrees and the remaining held bachelor's degrees. Three of our research analysts hold professional qualifications, such as Certified International Investment Analyst. We also encourage our research analysts to attend professional training programs to enhance their research expertise.

## **INFORMATION TECHNOLOGY**

### **IT System**

Our IT system is a vital component of our operations, which include transaction handling, customer service and risk management functions. In order to comply with the developing needs of corporate governance and risk management, we have established a specialized IT department, responsible for formulating and implementing IT policies, establishing IT standards, managing and supervising the IT divisions of our various branches and providing technological support to them.

We utilize systems and equipment developed by leading IT providers and place strong emphasis on maintaining and upgrading our IT equipment on a timely basis. In 2011, 2012 and 2013, we incurred IT-related expenditures of RMB40.8 million, RMB37.3 million and RMB30.9 million, respectively, for the purchase of IT systems and software.

Our IT system covers the following principal areas of our business:

- *Transaction management*: our IT system can monitor the operation of our business activities, such as brokerage, asset management and margin financing and securities lending, through our integrated transactional, account and unusual trades monitoring modules, enabling us to monitor sales and trading, account opening and changes in employee authorization levels in our branches.
- *Electronic securities platform*: our recently-launched electronic securities platform offers client account opening and sale of asset management products online, which enables us to expand our customer reach beyond the physical boundaries of our securities branches.
- *Client trading services*: our trading services provides diversified trading channels for our clients, enabling them to execute trades at our securities branches and on the Internet and mobile devices, thus satisfying their various transaction preferences and needs.
- *Data center*: our data center collects and processes data from our business operations in order to support our decision-making and reporting needs.

We believe IT infrastructure and information systems are essential for the effective management and successful development of our business and strive to improve our IT infrastructure and applications. In order to adapt to changing requirements for corporate governance and risk management, we will continue to upgrade the functionality of our current IT systems.

We rely primarily on third-party developers or providers for our IT equipment, system and software. In 2012, we have collaborated with third-party developers for designing and developing our IT operation and maintenance system, which was ISO20000 certified. This is testament to our IT management system's meeting the best international practice and standards. We expect our IT-related expenses to be approximately RMB57.9 million in 2014, including approximately RMB10.0 million for upgrading and enhancing our electronic securities platform.

**IT Risk Management**

We monitor our various trading activities, such as brokerage and margin financing and securities lending, on a real-time basis, and monitor post-settlement transactions, customer accounts and financial risk control indicators to manage our risks. We also utilize quantitative benchmarks to calculate and analyze various risk management measures, such as the scale of high-risk businesses, investment concentration, stop-loss thresholds and risk limits.

We have utilized various IT safety controls, including firewalls, data encryption and intrusion detection, client identity verifications, SSL certificates and mobile number-linked passcodes, to enhance our information safety and ensure smooth operation of our IT system, especially our online trading portal and electronic securities platform. In order to reduce risks from system failures, we have adopted measures to back up data for our key systems on a real-time basis. In addition, we maintain data recovery centers in Shanghai and Zhengzhou. During the Track Record Period, we did not experience any IT-related incident or failure.

**MAJOR CLIENTS AND SUPPLIERS**

We serve a diverse base of individual and institutional clients across a spectrum of sectors. Our major clients are mainly institutional clients in our investment banking business. Substantially all of our clients are located in the PRC, primarily Henan. See “Risk Factors – Risks relating to Our Business and Industry – We face the risks of concentration of customers and business in Henan.”

In each of 2011, 2012 and 2013, revenue attributable to our five largest clients accounted for less than 30.0% of our total revenue and other income. To the knowledge of our Directors, none of our directors, supervisors, their respective associates or any shareholders holding more than 5.0% of our issued share capital has any interest in any of our five largest clients as of the Latest Practicable Date.

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

**MANAGEMENT OF LIQUIDITY AND LEVERAGE RATIO**

Our liquidity management focuses on ensuring sufficiency of liquidity and safety of capital, while actively capturing opportunities to increase return on short-term funds. We seek to improve our return on equity by determining a leverage ratio suitable for our business.

We use a comprehensive budget system to forecast our cash flows and estimate our funding requirements for business expansion and other investments. To meet our short-term cash flow needs, we conduct repurchase transactions in both the exchange market and interbank market. To meet our Net Capital requirements, we have also adopted strict liquidity management measures, which require us to conduct stress testing on our overall liquidity and other financial indicators before making any capital investments.

In addition to liquidity management, we also actively manage our capital structure and financing channels. To increase our financial leverage ratio, we intend to actively broaden our debt financing channels. We intend to continue to improve our capital structure through margin and securities refinancing, issuances of corporate bonds and short-term notes, as well as other financing channels.



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In May 2013, our Shareholders authorized us to issue short-term notes not exceeding 60% of our Net Capital. On September 11, 2013, the PBOC approved that we may, at our discretion, issue short-term notes in an aggregate principal amount of up to RMB1.7 billion within a 12-month period. We issued the first tranche of fixed interest rate short-term notes, with a principal amount of RMB800.0 million, on October 14, 2013 in the national interbank bond market through a bidding process. We fully repaid the first tranche of short-term notes on January 13, 2014 and issued the second tranche of short-term notes on January 9, 2014, with a principal amount of RMB900.0 million. We fully repaid the second tranche on April 10, 2014. On April 4, 2014, we issued the third tranche of short-term notes with a principal amount of RMB800.0 million. We used the proceeds raised from the short-term notes for replenishing our working capital. We intend to issue additional tranches of short-term notes in 2014, subject to market conditions and our capital requirements.

In addition, on April 25, 2014, we issued RMB1.5 billion of corporate bonds in China with an annual interest rate of 6.2% and a term of five years. We used the proceeds from our corporate bond issuance for replenishing our working capital. Our corporate bonds will increase our indebtedness and interest expenses, but we expect them to improve our return on equity by increasing our leverage ratio.

We have formulated a series of internal control policies regarding the principles, structure and duties of managing our own funds, and the budgeting, financing, usage and risk management of our own funds. We have established a multi-level authorization mechanism and formulated policies regarding management, approval and appropriation procedures for the use of our own funds. These policies are established to enhance our funds management, improve our funds allocation and operation efficiency, control our liquidity risk and form a comprehensive fund management system.

## RISK MANAGEMENT

### Overview

The philosophies that underpin our risk management system include: ensuring compliance with laws and regulations; conducting business in a prudent manner; encouraging sustainable development; and balancing the interests of both shareholders and employees, as well as those of the society.

We have developed effective risk management policies and systems based on the general policies and strategies made by the Board and the Risk Control Committee. Our risk management system is designed to help achieve our business goals by optimizing our risk profile, establishing an effective risk-warning system, establishing risk mitigation and prevention measures, developing a systematic risk management mechanism and identifying various risks we face and limiting them to a tolerable level.



Our risk management system has the following characteristics:

- *Comprehensive and dynamic monitoring:* In accordance with regulatory requirements and our business needs, we have established a set of comprehensive risk control indicators to monitor, warn, report and manage the risks in our business. We have also developed a Net Capital-based risk monitoring system, by which we monitor our asset changes on a real-time basis. In addition, we are able to use the Net Capital-based risk monitoring system to analyze, evaluate, warn and report the risks in our business.
- *Efficient stress testing system:* We implement regular and *ad hoc* stress testing for the risks we face, and we have established an efficient working mechanism for stress testing, which enables us to determine reasonable capital allocations between different business lines, and prioritize capital for our key businesses.

### **Risk Management Principles**

Our risk management principles include:

- Strengthening internal control management while promoting business operations;
- Developing a prudent risk management structure based on our risk preference and appetite;
- Establishing a dynamic framework for risk prevention and controls that timely adapts to changes in our business strategies, market conditions and regulatory developments;
- Combining qualitative and quantitative risk management methodologies and developing risk indicators that are suitable for the characteristics, scale and complexity of our business so as to enhance our risk measurement capability; and
- Performing risk management functions by independent departments to maintain a high degree of independence and authority.

### **Risk Management System**

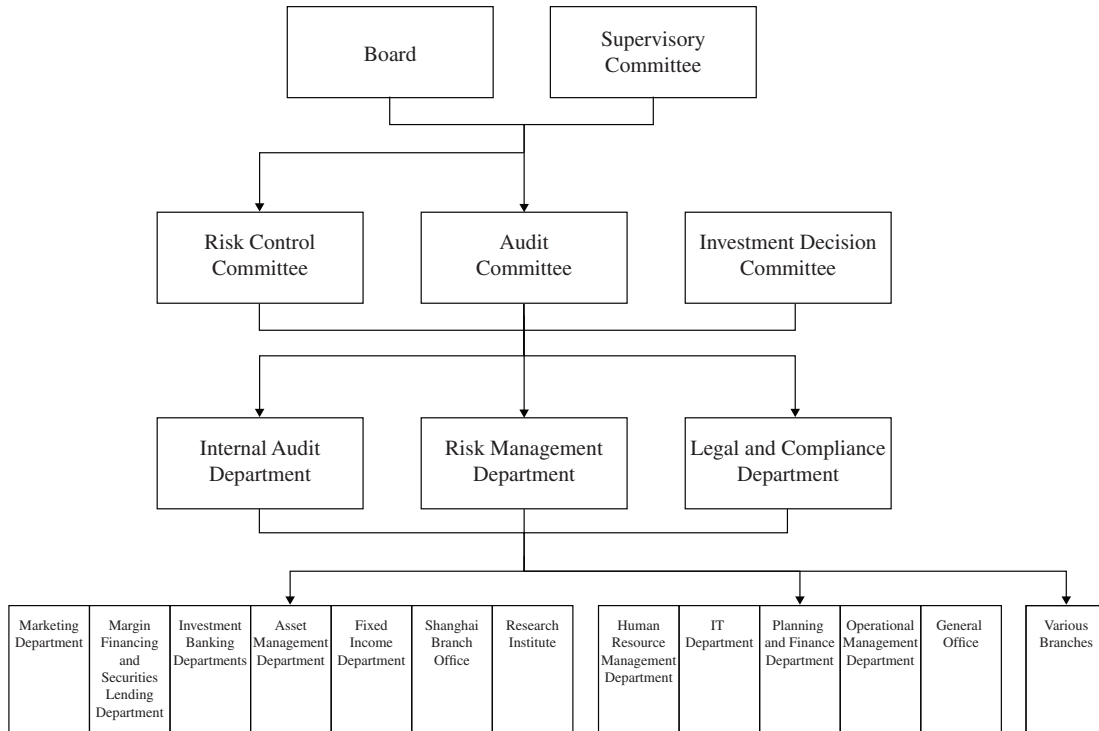
In accordance with the requirements of *Guidelines for the Internal Control of Securities Companies* (《證券公司內部控制指引》), together with our operational needs, we have established a four-level risk management structure, consisting of: (i) the Board and the Supervisory Committee; (ii) the Risk Control Committee, the Audit Committee and the Investment Decision Committee; (iii) the Legal and Compliance Department, the Risk Management Department and the Internal Audit Department; and (iv) frontline risk management functions at our business departments and branches.

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The organizational structure of our risk management is illustrated below:



### ***Board and Supervisory Committee***

The Board is at the highest level in our risk management structure and is ultimately responsible for establishing an effective risk management environment. Its responsibilities include: (i) developing the overall risk management targets, risk management policies and internal control systems; (ii) optimizing the governance structure and authorization hierarchy; (iii) guiding and defining the limits for specific risk management work; and (iv) authorizing responsibilities to other departments.

The risk management responsibilities of our Supervisory Committee include supervising the fiduciary duties carried out by the Board, senior management and relevant managers for risk management work, reducing the financial and legal risks in our operations, and protecting the interests of our shareholders and our Group.

### ***Risk Control Committee, Audit Committee and Investment Decision Committee***

Our Risk Control Committee, Audit Committee and Investment Decision Committee are the second level of our risk management structure. They are responsible for: (i) submitting annual reports to the Board on our overall risk management; (ii) reviewing our risk management strategies and critical risk management solutions; (iii) reviewing and evaluating the judgment criteria for major decisions, risks, events and businesses; (iv) reviewing the risk management evaluation reports submitted by the Risk Management Department; and (v) reviewing the organizational structure and responsibilities of risk management functions.

***Legal and Compliance Department, Risk Management Department and Internal Audit Department***

The third level of our risk management structure consists of our Legal and Compliance Department, Risk Management Department and Internal Audit Department, which are responsible for preventing risks before they occur, managing risks when they occur, and reviewing risks after they occur.

Our Legal and Compliance Department assists the Chief Compliance Officer in: (i) formulating our compliance policies and facilitating the implementation of such policies and relevant PRC regulations; (ii) providing compliance recommendations and advice to our management, business departments and branches; (iii) supervising and inspecting the legal aspects of our business operations and compliance; (iv) supervising our departments and branches in adjusting and optimizing our internal management systems and business process according to changes in applicable laws, regulations and standards; and (v) organizing the implementation of an anti-money laundering and “Chinese Wall” rules and submitting regular and *ad hoc* reports to the regulatory authorities.

Our Legal and Compliance Department is led by Mr. XU Haijun, who has been the chief compliance officer since December 2008 with over 21 years working experience in the securities industry. As of December 31, 2013, the Legal and Compliance Department has eight members with an average of seven years of relevant experience. Four of them hold a master’s or a higher degree and the remaining hold a bachelor’s degree. Including Mr. Xu, four of them have passed the Exam on Compliance Management Capability of Securities Companies (證券公司合規管理人員勝任能力考試), and four of them have passed the PRC National Judicial Examination (國家司法考試).

Our Risk Management Department is responsible for (i) performing risk management functions according to risk management goals and policies as set by the Board; (ii) proposing recommendations to the Risk Control Committee regarding risk management policies and internal control systems; (iii) continuing to optimize our overall risk management mechanism and establishing procedures for risk identification, evaluation, monitoring and feedback; and (iv) developing and reviewing relevant risk management policies, processes and indicators.

Our Risk Management Department is led by Mr. ZHANG Huamin, who has worked in the Finance Department and Internal Audit Department with a total working experience of over 18 years in the finance industry. As of December 31, 2013, this department had eight members with an average of more than five years of relevant experience. Six of them hold a master’s or a higher degree and the remaining hold a bachelor’s degree.

Our Internal Audit Department is responsible for, by way of internal audits, reviewing and evaluating the completeness and efficiency of the internal control system, legal and compliance aspects of our business operations, the efficiency of our business operations, and the safety of our capital, as well as issuing remedial advice to the relevant departments and branches.

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Our Internal Audit Department is led by Ms. WANG Xiujuan, who holds the title of professional public accountant with over 20 years of relevant experience. As of December 31, 2013, this department had ten members with an average of 14 years of relevant experience. Four of them hold a master's or a higher degree and the remaining hold a bachelor's degree. Four members of our Internal Audit Department are also professional accountants.

### ***Risk Management Functions at Department and Branch Levels***

Our frontline risk management functions include our various departments and branches. Their risk management responsibilities include: (i) formulating internal control and risk management measures for the operations and management at department or branch level; (ii) performing risk management functions at department or branch level; and (iii) reporting to higher risk management authorities.

### **Monitoring and Management of Major Risks**

We monitor and manage the credit risk, market risk, liquidity risk, compliance risk and operational risk in our businesses.

#### ***Credit Risk***

Credit risk refers to the risk resulting from the failure of a debtor or counterparty to timely perform its contractual obligations. Our credit risk mainly exists in our proprietary bond trading and margin financing and securities lending as well as securities-backed purchases.

In managing the credit risk of our bond trading, through credit ratings, we evaluate the credit risks of different investment products by considering the types of investment, issuers and counterparties. Our risk management work includes the management of various bond products and counterparties by category, as well as the daily monitoring of credit conditions of our bond investments. All transactions beyond the authorized limits should be reported to our Risk Management Department for review and to the second level of our risk management structure for approval. Our Risk Management Department reviews the transaction and settlement methods of our bond investments and the counterparties' credit ratings, and alerts us to any potential transaction risks.

To minimize the credit risk for our margin financing and securities lending business, we have stipulated stringent policies and procedures to monitor the credit risks involved in credit rating, credit granting, daily mark to market, position close-out and other transactions. See “– Internal Control Measures – Margin Financing and Securities Lending Business” and “– Internal Control Measures – Securities-backed Lending.”

### *Market Risk*

Market risk refers to the possibility of loss or decreasing in income of our Company resulting from the overall or partial change of the market, including the risk of price fluctuation in equity-based assets, interest rate risk and exchange rate risk. Our market risk mainly exists in our proprietary trading business.

To minimize market risk, we have adopted the following measures:

- Utilizing a stop-profit and stop-loss mechanism that sets pre-determined points to stop profit or loss on an overall basis or on each individual equity security;
- Increasing bond portfolio duration when market interest rates are expected to decrease, and decreasing bond portfolio duration when market interest rates are expected to increase. When we keep our bond portfolio duration unchanged, we prefer securities with larger convexity; and
- Using quantitative indicators to evaluate risk exposure and combining them with scenario analysis, stress testing and sensitivity analysis to assess the relative and absolute risks of portfolios and to monitor their compliance with the risk limits determined by our Board.

### *Liquidity Risk*

Liquidity risk refers to the risk of whether the assets can be liquidated to repay debts in a foreseeable period without value depreciation.

In order to prevent liquidity risk, we adopt the following measures:

- Strengthening the real-time monitoring and management of large amounts in funds in order to achieve centralized fund allocation and coordinated liquidity risk management;
- Maintaining and developing a diverse source of liquidity to timely meet our liquidity requirements through accessing the inter-bank market, capital markets and bank facilities; and
- Using a Net Capital-based monitoring system to monitor our risk control indicators on a real-time basis and utilizing stress testing to evaluate the impact of our business activities on our Net Capital.

### *Compliance Risk*

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, self-discipline penalties and loss of property or reputation among securities firms because the business activities or employee conduct violate laws, regulations or rules.

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We have established an effective sound compliance risk management system and compliance management organizational system. In order to promote the compliance management of the securities industry, we set up the Legal and Compliance Department at an early stage, actively explored various models of compliance management and conducted effective management through compliance review, monitoring, examination, supervision and training.

### ***Operational Risk***

Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system.

- We primarily monitor the operational risks in our brokerage business, asset management and proprietary trading businesses on a real-time basis;
- We set up stringent operational control procedures to reduce the technology and man-made risks, and improve the risk management efficiency; and
- Our frontline risk control staff manages and reports the operational risks at department and branch levels.

## **INTERNAL CONTROL MEASURES**

We have implemented a series of risk management and internal control measures to manage the specific risks relating to our business activities.

### **Securities Brokerage Business**

We have formulated comprehensive internal rules and guidelines for our securities brokerage business to ensure that our securities brokerage business and branch operations are in compliance with the relevant laws and regulations and to standardize the operations of our securities brokerage business. During the Track Record Period, we did not experience any unauthorized trade or serious trade error committed by our employees or other misconduct committed by our representatives, agents and clients that had a material adverse effect on our business, financial condition or results of operations.

The key risks we monitor for our brokerage business include credit risk, operational risk and compliance risk. We manage these risks primarily through the following measures:

#### *Standardizing management of service counters*

We have strict rules for verifying client identity, preserving information, as well as opening and re-examining client accounts, among other measures, and have established supervision and inspection mechanisms for opening and re-examining client accounts.

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*Understanding the risk profile  
of our clients*

We evaluate the risk profile of our clients based on a combination of factors, such as their financial condition, investment experience and investment preferences. In addition, we use our proprietary risk tolerance assessment system and our proprietary risk tolerance questionnaire to assess the risk tolerance of our clients, and in order to match the needs of our clients with the financial products.

*Third-party custody of client  
funds*

In accordance with the relevant laws and regulations regarding the custody of client funds, we require brokerage branches to maintain accounts with qualified commercial banks to hold client deposits.

*Real-time monitoring system*

Through our IT system, we are able to monitor client transactions on a real-time basis and detect unusual and irregular trading activities. Our dedicated personnel conduct real-time monitoring of our branches with respect to account openings, security of funds, authority limits of tellers and irregularities in client trading.

*Centralized management*

To prevent misappropriation of client funds, we have centralized client transactions and client data backup, and have centralized the management of the securities brokerage trading systems of our branches with respect to authority limits and parameters. In order to enhance the security of clients' funds, we settle and clear client funds centrally through our headquarters.

*Segregation of front and back  
offices*

We supervise and manage the front office and the back office of our branches separately. We have a dedicated internal control team to manage the authority limits and duty assignment for our employees. The auditing, settlement and risk management personnel of our back office are prohibited from participating in sales and marketing, managing client accounts or handling client deposits.



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### *Segregation of businesses*

We require our securities brokerage business to be segregated from other businesses with conflicts of interest, such as research and proprietary trading. Key functions, such as account-opening, withdrawal and transfer of funds, accepting delegation from clients and clearing and settlement should be properly segregated. We separately handle and manage our customers' funds and our own funds. Our IT system for our securities brokerage business and other businesses with conflicts of interest are mutually independent or physically separated. We also maintain the confidentiality and segregation of sensitive information in our securities brokerage business. We take measures to prevent the securities brokerage staff from improperly releasing clients' information, inducing clients' transactions, or taking unfair advantage of the clients' information for the improper interests of our other business departments or their employees.

### *Regular and special audits*

Our Internal Audit Department, Legal and Compliance Department and Risk Management Department conduct regular and special audits on our brokerage business department and branches with respect to their internal controls, daily operations, financial and accounting management and business performance.

### *Highlighting risks to investors*

We continue to strengthen investor education and improve the risk highlighting functions of our trading system in order to improve investors' risk awareness and risk management capabilities.

### *Mechanisms for follow-up calls and handling client complaints*

We have established a coordinated client service platform to make follow-up calls for some clients. Meanwhile, we prominently display information about the hotlines, email addresses and faxes that handle client complaints at our website and our branches, to ensure the concerns of our clients are handled properly and in a timely manner.

In order to manage the risks associated with the agency sale of third-party financial products, we adopt the following internal control measures;

- conducting a review of the third-party financial institution's background, such as its capital base, business scale, shareholding structure, operating history and internal controls;

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- performing a detailed product analysis, including its source of future cash flow, collateral ratio, guarantees, use of funds and investment strategies;
- evaluating the risk profile of the financial products and determining the suitable groups of investors;
- providing product training to our sales employees and requiring them to market and sell third-party financial products only to eligible clients matching the product's risk profile;
- requiring sales employees to provide sufficient product information, including detailed risk disclosure, to clients;
- collecting feedback from clients to monitor any improper conduct by our sales employees; and
- conducting stress testing before the agency sale of third-party financial products and then continuing such tests on a monthly basis.

### **Futures Brokerage Business**

We conduct our futures brokerage business primarily through our subsidiary, Central China Futures, which manages the risks related to the futures brokerage business through the following measures:

#### *Account management*

During the process of opening an account, Central China Futures requires a strict review of the client's identity. After fully disclosing relevant risks associated with futures transactions to the clients, Central China Futures provides training and fully evaluates the suitability of the clients, and subsequently sits down with the client to sign the futures brokerage contract and other risk-disclosure documents. In order to ensure the services provided match the clients' interests, Central China Futures stipulates that strict procedures be followed in evaluating a client's creditworthiness. According to the evaluation results, Central China Futures classifies the clients into different types, and provides suitable services and risk management measures accordingly.

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*Client margin deposit management*

Central China Futures requires client margin deposits to be segregated from its own funds and manages them in separate accounts. It adjusts the required margin deposit ratio in a timely manner based on the client's creditworthiness and market conditions. If a client fails to maintain the required margin deposit ratio, that client will be required to deposit additional amounts or close out the position.

*Trading*

Central China Futures has established various policies to regulate futures trading. For example, it prohibits employees from making non-compliant entrustment arrangements, promising profits, or participating in futures trading. Central China Futures maintains multiple backups of clients' trading order records and in multiple forms of media.

*Real-time monitoring*

Central China Futures conducts real-time risk monitoring during the trading process, focusing on risky accounts and abnormal tradings, such as opposite positions in a sharply volatile market and positions close to an adjustment period. In addition, Central China Futures provides real-time warnings on abnormal tradings and other irregularities.

### **Margin Financing and Securities Lending Business**

The key risks we monitor in our margin financing and securities lending business include credit risk, interest rate risk, operational risk and compliance risk. We also manage the market risk and liquidity risk related to this business. We have established a real-time monitoring system to control the scale of our margin financing and securities lending business based on predetermined parameters benchmarking against our Net Capital. We seek to prevent our business from excessively concentrating on any single client or stock. In general, we conduct our margin financing and securities lending business in accordance with the following predetermined parameters:

- the scale of business from any single client of margin financing may not exceed 3% of our Net Capital (which is lower than the maximum of 5% required by the PRC regulatory authorities);
- the scale of business from any single client of securities lending may not exceed 2% of our Net Capital (which is lower than the maximum of 5% required by the PRC regulatory authorities); and
- the market value of any single stock collateral we receive from clients may not exceed 16% of such stock's total market capitalization (which is lower than the maximum of 20% required by the PRC regulatory authorities).

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We have established a stringent client selection and credit assessment system for our margin financing and securities lending business. To manage client credit, we have established a multi-level review system that involves both the various branches and the relevant department of our headquarters. Our branches are responsible for the preliminary review of credit information provided by our clients in order to understand clients' identities, properties owned and income, investment experience and risk appetite. The credit information of eligible clients will then be reviewed by our margin financing and securities lending department in our headquarters. We will not accept applications for margin financing and securities lending from clients who fail to satisfy the following criteria: (i) providing relevant personal information as required; (ii) maintaining an account in our Company for more than half a year; (iii) depositing transaction settlement funds under a third-party custody; (iv) meeting our minimum account assets requirement of RMB100,000 (lowered to RMB50,000 in May 2014); (v) possessing adequate experience in securities investment; (vi) having the appropriate level of risk tolerance and having no material default record; and (vii) not being our Shareholders and affiliated persons. We determine clients' credit ratings and credit limits based on the credit information they provide. We classify our clients into eight levels of credit ratings, on which we determine the credit lines of the clients. We reject any applications for margin financing and securities lending from clients who fail to obtain the lowest credit rating. We track and assess the credit condition of clients engaging in margin financing and securities lending business on an ongoing basis. In case of any material change in client credit condition, we will re-evaluate his or her credit rating and decide whether to continue granting credit or to adjust the credit limit for the client.

We monitor the collateral ratio of clients engaging in margin financing and securities lending business on a real-time basis and close out the client's position if necessary. The collateral ratio is calculated as the ratio of the client's total account balance, which includes cash and securities held, to the client's margin balance, which is the sum of margin loans extended, the securities sold short and any accrued interests and fees. As of December 31, 2012 and 2013 and April 30, 2014, the collateral ratio in margin financing and securities lending business was 396.3%, 230.6% and 221.2%, respectively.

We categorize clients' credit accounts into three classes, namely, safe class, alert class and liquidation class, according to their different collateral ratios in order to conduct differentiated management. We send alerts to clients whose accounts are under the alert class (i.e. client accounts with collateral ratio below 150% but not lower than 130% upon day-end clearing) restricting them from conducting margin financing and securities lending activities. We send margin calls to clients whose accounts are under the liquidation class (i.e. client accounts with collateral ratio lower than 130% upon day-end clearing) requesting them to increase their collateral ratios to 150% or above within the next two business days, failure of which will result in mandatory liquidation of their trading positions.

## **Investment Banking Business**

In carrying out the internal control for our investment banking business, we focus on preventing legal risks, financial risks and operational risks resulting from poor management, ambiguity of powers and duties, and failure of diligence. We control and manage these risks through the Internal Review Team for Securities Offering, Business and Technology Committee of the Investment Banking Department, the Capital Markets Department (with an internal Quality Control Department,) involving project approval, on-site inspections, documentary review, management of project quality, management of project agreements and issuance and underwriting.

### *Project approval*

We implement strict procedures for approving investment banking projects. The report for project approval must undergo the requisite quality control procedures. After the Quality Control Department reviews the project approval reports, the Business and Technology Committee of the Investment Banking Department should decide whether to approve the projects by experts' review and collective decision-making. And after the approval becomes effective, the business department may officially form a team to execute the project.

### *On-site inspections*

Before submitting the project for internal review, the Quality Control Department is responsible for organizing on-site inspections for the project, which primarily include the following:

- reviewing due diligence documents as well as collecting and analyzing relevant materials;
- visiting operational venues; and
- attending meetings and interviewing the issuer's senior executives and employees.

### *Documentary review*

The internal review team and the project's sponsor representatives conduct thorough reviews of the issuer's business, legal and financial matters to ensure that the disclosure documents are accurate and complete, have no material misstatements or omissions and comply with the relevant rules and regulations.

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<i>Management of project quality</i>	Projects are subject to reviews by sponsor representatives, relevant investment banking business team leaders, the Quality Control Department and the Business and Technology Committee of the Investment Banking Department, in order to ensure project quality. The investment banking business team and sponsor representatives report issues timely and propose solutions through monthly reporting. The Business and Technology Committee of the Investment Banking Department provides necessary technical guidance to the approved projects. Before the Internal Review Committee for Securities Offering and the Business and Technology Committee of the Investment Banking Department make decisions, the Quality Control Department is responsible for the projects investigation, analysis, review and other fundamental work.
<i>Management of project agreements</i>	The Legal and Compliance Department and the Quality Control Department are responsible for reviewing agreements relating to the investment banking business.
<i>Management of underwriting risk</i>	We separate the pricing and sales functions from project execution. The Capital Markets Department is responsible for the pricing and sales, and effectively controls underwriting risk by establishing a mechanism to assess and manage such risk.
<i>Management of sponsor representatives and other key employees</i>	We regulate our sponsor representatives and other key employees with respect to their qualification registration, workflow procedures, powers and remuneration, as well as responsibilities and penalties.

### **Investment Management Business**

#### ***Asset Management Business***

Our Legal and Compliance Department, Risk Management Department and Internal Audit Department supervise and assess our exposure to the potential regulatory risk, market risk, credit risk, interest rate risk, liquidity risk, operational risk and compliance risk arising from our asset management business. These departments cooperate with the risk management personnel of our asset management business to monitor these risks in order to ensure the effective performance of our entrusted duties, the accurate disclosure of risk-related data, our prudent business growth and the protection of our investors' interests.

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The internal control and risk management measures of our asset management business primarily include the following:

*Investment decision-making procedures*

- The Asset Management Decision-making Committee is responsible for determining significant matters such as investment philosophy, investment principles, investment restrictions and the appointment of investment managers.

*Management of trading procedures*

- We assign different personnel to issue investment orders and execute trades. Investment managers issue electronic trading orders through the trading system in accordance with the authorization by the asset management decision-making committee and the scope of investment specified in asset management contracts. Traders strictly follow such orders in executing trades, and the trading system will automatically reject trades that do not comply with the orders, and also reject the operations without orders. Both the issuance and the execution of trading orders are recorded in the system.
- For asset management schemes invested in equity securities, we implement stop-profit and stop-loss mechanisms in accordance with contracts, product schemes and relevant regulatory rules.
- The asset management business establishes a securities pool and makes investments within the scope of the securities pool. The establishment and maintenance of the securities pool is required to be conducted in accordance with pre-determined criteria and analysis mechanisms.



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### *Segregation of businesses*

We require the asset management business to be segregated from our proprietary trading and other securities businesses in order to prevent insider trading and avoid conflicts of interest. A senior executive is prohibited from managing both the asset management and proprietary trading businesses simultaneously. These two business departments may not be led by the same individual. A chief investment manager may not be involved in both the asset management and proprietary trading businesses simultaneously. The investment manager of a targeted asset management plan may not act as the investment manager of any other asset management business. The accounts of our targeted asset management plans may not trade with our proprietary trading accounts, and our various asset management accounts may not trade with each other. We require the asset management business to segregate duties that may generate conflicts of interest, such as investment operations, transfer and allocation of funds, account management, settlement and clearing, and accounting, among other functions.

### *Opening independent accounts*

We entrust client assets with qualified commercial banks, the CSDCC, securities firms approved by the CSRC or other asset custodian institutions. We provide asset management services to our clients through designated accounts. The asset management business is managed through designated fund accounts, securities accounts and trading accounts.

### *Due diligence on client identity*

We conduct due diligence on client identity to understand the client's assets, income, securities investment experience, investment preferences, risk awareness and risk tolerance level. We also timely examine whether the source and usage of the assets being managed is legitimate so that we can recommend products or services that suit the client's risk tolerance level.

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### *Risk disclosure*

We require our client development personnel to disclose our business qualifications to our clients, explain the asset characteristics, investment scope, investment restrictions, risk-return characteristics and other aspects of the asset management contracts, and disclose risks to our clients proactively.

### *Real-time risk monitoring*

Our risk management personnel have established risk-monitoring thresholds within our trading system in accordance with the relevant legal and regulatory requirements, in order to supervise, monitor, identify and report the irregularities and non-compliance incidents in trade execution, shareholding structure, stop-loss and stop-profit.

We centralize the management of our clients' assets and prohibit any department, subsidiary or branch from conducting asset management business without our consent.

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

We engage in the direct investment business through ZDKY Venture Capital, which has an investment committee that can make decisions on any equity investment and debt investment not exceeding RMB30 million and RMB50 million, respectively, as authorized by its board. The investment committee of ZDKY Venture Capital manages the risks associated with our direct investment activities, primarily operational risk and compliance risk. For any equity investment over RMB30 million or debt investment over RMB50 million, the investment committee will recommend such investment to the board of ZDKY Venture Capital for approval.

Our equity investment targets companies with high-growth potential, listing potential or significant value for merger and acquisition. We do not intend to obtain controlling stakes of, or control, our target companies. Our shareholdings in target companies usually do not exceed 20%. A single direct equity investment by us usually does not exceed 20% of ZDKY Venture Capital's Net Capital. Our debt investment targets companies with sound credit and liquidity standings, and if the target company has growth potential for equity investment at a later stage, we may consider making an equity-linked debt investment. A single direct debt investment by us usually does not exceed 30% of ZDKY Venture Capital's Net Capital.

ZDKY Venture Capital has established strict risk management and internal control systems based on relevant PRC laws and regulations and our general internal control policies, covering project approval, due diligence, transaction negotiation, investment decision-making, investment transaction, post-investment management and exit of investment. ZDKY Venture Capital has established three lines of defense, namely, (i) the investment decision-making committee, (ii)

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management team and investment management department, and (iii) review committee and risk management and compliance department:

*The board*

The board of ZDKY Venture Capital is the highest decision-making body for our direct investment business. It is responsible for determining the business scale and formulating the basic regulations for our direct investment business.

*Investment decision-making committee*

The investment decision-making committee of ZDKY Venture Capital is the decision-making organization for the project investments under the authorization of the board. It is responsible for reviewing direct investments or exiting from them.

*Management*

The management of ZDKY Venture Capital is responsible for the organization and implementation of the investment activities.

*Investment management department*

The investment management department of ZDKY Venture Capital is responsible for market development, due-diligence investigation, investment design and negotiation, and post-investment management.

*Review committee*

The review committee of ZDKY Venture Capital is responsible for the review work after the due diligence investigation and providing review opinions to the investment decision-making committee.

*Risk management and compliance department*

The risk management and compliance department of ZDKY Venture Capital is responsible for evaluating the risks associated with investment projects, conducting analysis and evaluations for investment review, decision-making, implementation, post-investment management, exiting the project, and implementing risks monitoring.

### ***Fund Management Business***

Our fund management business is conducted through our subsidiary Ashmore-CCSC Fund Management.

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The major risks we face in our fund management business include market risk, credit risk, liquidity risk and operational risk. In order to effectively reduce these risks, Ashmore-CCSC Fund Management implements various internal control measures: stipulating strict procedures to standardize the development of fund products; setting up comprehensive and standardized procedures for the marketing of fund products; establishing a comprehensive system of decision-making and authorizations regarding investment; applying reasonable evaluation methods and procedures for keeping financial reports, accounting and evaluating investments; promptly disclosing relevant information according to regulatory requirements and contract provisions; and establishing the transaction monitoring system, the transaction feedback system and the investment management performance evaluation system, as well as the fair transaction analysis system.

### **Proprietary Trading**

The key risks we monitor in our proprietary trading business include market risk, credit risk, liquidity risk, operational risk and compliance risk.

Our Board determines the overall investment scale and risk limits associated with our equity and debt securities investments on an annual basis. Within such prescribed limits, our Investment Decision Committee adjusts our actual trading activities based on market conditions and our investment strategies. Our Shanghai branch office, which is responsible for conducting proprietary trading activities, implements the following measures:

#### *For equity securities:*

- Maintaining a pool of equity securities for our proprietary trading business based on market conditions and research;
- Monitoring our securities holdings on a real-time basis, including our trading positions, unrealized profit or loss, risk exposure and trading activities;
- Establishing various monitoring metrics and applying various methods, such as scenario analysis, stress testing and sensitivity analysis, to determine and control our risk exposure in securities investments. We adopt three types of monitoring levels (“normal,” “sub-standard” and “special-mention”) with respect to our securities investments based on the size and value of investments, fair value changes, risk limits and investment concentration, both on an overall basis and on each individual stock;
- Establishing a stop-profit and stop-loss mechanism that sets pre-determined points to stop profit or loss on an overall basis or on each individual stock; and
- Establishing dynamic risk limits under which we are required to reduce or liquidate our investment holdings based on mark-to-market fair value changes. In general, increased losses on our equity securities will result in our investment size and risk exposure being mandatorily reduced.

### *For debt securities:*

- Controlling the investment horizon of our debt securities investment. Most of our bond investments include short-term and mid-term bonds which mature within three to five years. In addition, we also monitor the credit rating of the bond issuers. We principally invest in long-term bonds that are rated AA or higher and short-term bonds that are rated A-1 in China; and
- Limiting the amount of our bond repurchase transactions by setting a maximum leverage ratio.

During the Track Record Period and up to the Latest Practicable Date, we had entered into futures contracts based on the CSI 300 Index on a monthly basis. Our monthly stock index futures contract is valued at RMB300 times index points and settled by cash on the third Friday of the contract month. During the one-month term of a stock index futures contract, we are able to buy or short-sell our desired amount of CSI 300 Index futures on margin based on our hedging needs and how we predict upcoming market conditions. For each trade, the minimum allowable index movement, or tick size, is 0.2 index point and the daily maximum price movement is a 10% increase or decrease of the settlement price from the previous trading day. In addition, we are required to reserve at least 12% of the contract value in our margin account as a deposit. Our hedging activities are conducted by three members of our Shanghai branch office, led by the deputy director of such office, who each have over ten years of working experience in the securities industry. Our hedging activities are jointly overseen by the risk management officer of our Shanghai branch office and our Risk Management Department.

### **Securities-backed Lending**

We have established a stringent client selection and credit assessment system for our securities-backed lending business. Similar to our margin financing and securities lending business, our branches are responsible for the preliminary review of credit information provided by our clients in order to understand clients' identities, properties owned and income, investment experience and risk appetite. The credit information of eligible clients will then be reviewed and monitored by our securities-backed lending department in our headquarters. We will not accept applications for securities-backed lending from clients who fail to satisfy the following criteria: (i) providing relevant personal information as required; (ii) possessing adequate experience in securities investment; (iii) having the appropriate level of risk tolerance and having no material default record; and (iv) not being our Shareholders and affiliated persons. We determine credit ratings and credit limits based on the credit information they provide. We classify our clients into five levels (AAA, AA, A, BBB or BB) of credit ratings, and we reject any applications from clients who fail to obtain a rating of BBB or above. We track and assess the credit condition of clients engaging in securities-backed lending on an ongoing basis. In case of any material change in client's credit condition, we will re-evaluate his or her credit rating and decide whether to continue granting credit or to adjust the credit limit for the client.

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We monitor the collateral ratio of clients engaging in securities-backed lending on a real-time basis. The collateral ratio is calculated as the ratio of the client's total account balance, which includes cash and securities held, to the client's margin balance, which is the sum of margin loans extended and any accrued interest and fees. As of December 31, 2013 and April 30, 2014, the collateral ratio in our securities-backed lending business was 359.3% and 315.7%, respectively. We categorize clients' credit accounts into three classes, namely, safe class, alert class and liquidation class, based primarily on their collateral ratios, type of pledged securities and the terms of the loans. We send alerts to clients whose accounts are under the alert class (generally with a collateral ratio below 180% but not lower than 160%), requesting that they monitor their margin accounts and take remedial measures if their collateral ratios continue to drop. Once their accounts drop down to the liquidation class (generally with a collateral ratio below 160%), we send liquidation notices to clients, requiring them to either repay the loan we lent, provide additional collateral and/or provide third-party guarantors to us within the next business day, failure of which may lead to the mandatory disposal of pledged securities.

### **Other innovative business**

*Full-process participation by Risk Management Department and Legal and Compliance Department*

Our Risk Management Department and Legal and Compliance Department participate in the entire process of development and analysis for innovative businesses and conduct comprehensive risk assessment and feasibility studies on various types of risks in relation to new products and new businesses, including legal risk, compliance risk, credit risk, market risk, operational risk and reputational risk. They identify the potential risks of these new products and businesses, establish risk control measures and assign the responsibilities of implementing these measures to the relevant business departments. In addition, our Risk Management Department and Legal and Compliance Department conduct risk monitoring and compliance inspections on innovative businesses in order to rectify problems in a timely manner and improve the risk management of innovative businesses.

*Restrictions on scale of business and management of risk quota*

Based on the regulatory requirements for the relevant risk control indicators and our operational conditions, we determine the annual scale of business and risk limits for our new businesses.

## **Chinese Wall**

A Chinese Wall is a barrier to ensure that material non-public or sensitive information obtained by one division of our business is not released to our other divisions without proper authorization. A Chinese Wall aims to isolate those persons who make investment decisions from those who are privy to material non-public information which may influence those decisions.

As a securities firm with a diversified range of businesses, we inevitably face situations where two or more interests conflict. We recognize the importance of managing such conflicts of interest in order to protect the interests of our clients. Therefore, we have established Chinese Walls in different business lines to prevent and minimize potential conflicts of interest by controlling the flow of material non-public information and ensuring compliance with relevant rules and regulations. Specifically, we have implemented the following measures:

- we operate departments with conflicts of interest, such as investment banking, proprietary trading, asset management and research departments in physically segregated offices and use computers, facsimile machines, printers and other office equipment separately. We set access control for business departments with sensitive information, and restrict employees from entering into other departments with conflicts of interest;
- once we are engaged by a corporate client for equity underwriting or financial advisory services, our proprietary trading and research departments are restricted from conducting any securities trading, stock research or other business activities involving such investment banking client, its securities and its material related parties and their securities. In addition, our research department cannot issue a research report on an investment banking client until 40 days after the announcement of the pricing of the client's IPO, or 10 days after the announcement of the pricing of the client's secondary offering;
- we separately manage the funds and securities accounts associated with our proprietary trading, asset management, margin financing and securities lending and other businesses with conflicts of interest;
- the IT systems for our different businesses with conflicts of interest are mutually independent or logically separated; and
- none of our senior management members is in charge of two or more departments with conflicts of interest simultaneously, and none of our employees is allowed to undertake multiple duties with conflicts of interest.

We adopt an authorization process that allows certain employees to conduct temporary "wall-crossing" with the permission and under close scrutiny of the employee's own department, the department requiring the "wall-crossing" and our legal and compliance department. Our legal and compliance department sends a "wall-crossing" code of conduct to the "wall-crossing"



employees and requires them to sign a commitment letter with us and prevent them from releasing or improperly using any sensitive information obtained during a “wall-crossing” period. We supervise and manage the conducts of employees who perform duties such as compliance, internal audit and finance, and require them to maintain strict confidentiality of any sensitive information obtained in carrying out their duties. In addition, we have built an information segregation system that enables classified management of business activities that may be affected by sensitive information to achieve front-end control of conflicts of interest, for example, for sensitive information classified as a “high,” we prohibit the publication of research reports related to such sensitive information.

We believe that our information segregation system and Chinese wall mechanism have been effective in preventing insider trading and managing conflicts of interest during the Track Record Period.

### **Segregation of Duties**

To minimize the opportunity for collusion and improper trading, duties and functions within our various business departments are assigned to different teams of employees. No employees may perform work simultaneously for two or more departments with conflicts of interest.

No employees in the business departments may work simultaneously in the subsidiaries with conflicts of interest. No employees in the IT Department, the Planning and Finance Department and departments with supervision and inspection functions may work simultaneously in business departments. The personnel in the Settlement and Custody Department may not work simultaneously in our IT Department or trading departments.

### **Conflicts of Interest**

Conflicts of interests may arise among (i) our various operating units; (ii) our clients and us; (iii) our various clients; (iv) our employees and us; or (v) our clients and our employees.

In order to prevent conflicts of interest, we have adopted the following specific measures:

- Research personnel should not provide false or misleading information;
- Investment analyses, forecasts or recommendations provided to the public, different clients and various departments regarding the same issue and at the same time may not contain contradictory views; and
- Information briefs, news updates and information systems which are only intended for internal use cannot be disclosed to the public by any methods.

One of the fundamental objectives of Chinese Walls is to manage conflicts of interest. We have adopted a series of measures and methods to manage conflicts of interest. We first adopt measures of information segregation to avoid conflicts of interest. If it becomes difficult to avoid conflicts of interest even with Chinese Walls, such conflicts of interest must be disclosed. If such

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conflicts of interest cannot be managed effectively through disclosure, we may adopt measures such as imposing restrictions on business activities. When we impose restrictions on business activities, we shall endeavor to prioritize the client's interest and treat the different clients fairly.

During the Track Record Period, we did not experience any material failure to protect confidential information coming from or related to our clients.

### **Anti-Money Laundering**

We are committed to establishing and enforcing appropriate policies and procedures to prevent money laundering and terrorist financing and to ensure compliance with all relevant legal and regulatory requirements. Money laundering activities refer to various activities intended to hide or alter the illegal source of money. Our employees are required to conduct stringent identification regarding clients applying to open new accounts. Our account management system categorizes the money laundering risk of each client so that we can manage clients at various levels of money laundering risk differently.

We have also established a three-level anti-money laundering organizational system which includes the Anti-money Laundering Leading Committee; the Anti-money Laundering Working Committee which is composed of the managers of various departments; and anti-money laundering agencies in various branches. We have developed and improved our anti-money laundering monitoring report system, with which we further strengthen the off-site regulations and suspicious transaction identification and reporting work regarding anti-money laundering.

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

### **MARKET AND COMPETITION**

Henan has considerable potential for securities industry development. As of December 31, 2013, the securitization ratio (total market capitalization of listed companies divided by nominal GDP) in Henan was 13.7%, far behind the national average of 42.1%. Henan government authorities have placed strong emphasis on the development of local capital markets and intends to facilitate corporate financing by qualified corporations through IPOs, secondary offerings and bond offerings and to build a Regional OTC Board to promote a multi-tiered capital market system. We believe that the continued implementation of the three PRC national strategies relating to Henan will create abundant opportunities for local economy and investment growth, corporate financing, SME sector development and social wealth accumulation as well as infrastructure development, which could contribute greatly to the financial services industry in Henan.

We are the only securities firm headquartered and registered in Henan. As of December 31, 2013, there were 52 PRC securities firms with a business presence in Henan and the top ten securities firms with securities brokerage businesses in Henan commanded 83.1% of market

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share, in terms of revenue generated by securities branches in Henan. As of the same date, our local market share by brokerage revenue amounted to 28.9%. According to the SAC, in 2012, net revenue from our securities brokerage and equity financing businesses ranked 39th and 36th, respectively, among all 115 PRC securities firms, representing 0.8% and 0.7%, respectively, of the total market share in China. In 2012, our Company's profit (under PRC GAAP) ranked 36th among PRC securities firms, according to the SAC, representing 0.6% of the total market share in China. For more information relating to the economy and the securities industry in Henan and China, see "Industry Overview."

There are 115 securities firms in China. The PRC securities industry is highly regulated and PRC securities firms are subject to extensive regulatory requirements applying from various perspectives, including business licenses, scope of products and services and Net Capital. Competition in the securities industry in Henan and China has been and is likely to remain intense. In 2012, in terms of revenue and profit, the top ten securities firms in China commanded an aggregate of 42.5% and 56.6% of the total market share in China, respectively. For our securities brokerage business, we mainly face competition from other securities firms with branches in Henan, such as Minsheng Securities Co., Ltd. and Donghai Securities Co., Ltd. For our investment banking business, we compete primarily with other PRC securities firms. As we expand beyond Henan, we also compete with other regional or national securities firms that operate in the same regional markets as us. Our competition is based on a number of factors, including the range of products and services offered, pricing, geographic and network coverage, customer service, brand recognition, financial strength and marketing and sales capacities, and employee compensation.

Some of our competitors may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience and more advanced information technology systems, wider geographic coverage and the ability to offer more financial products and services than us. In addition, with the deregulation in China's securities industry, more competitors are seeking to enter or expand in the market. We believe that the financial service industry in China is becoming increasingly competitive. For example, in early 2014, a PRC securities firm launched online discount brokerage, offering investors lower commission rates than conventional brokers. We expect more online discount brokerage providers to emerge in China and compete with traditional securities firms. Should we fail to compete successfully against our competitors, our business, financial position, results of operations and prospects may be materially and adversely affected. See "Risk Factors – Risks Relating to Our Business and Industry – The PRC securities industry is highly competitive, and our business and prospects may be materially and adversely affected if we are unable to compete effectively."

## INTELLECTUAL PROPERTY RIGHTS

We were established in Henan in 2002 and has since been carrying on business under the name 中原证券股份有限公司 in the PRC. As of the Latest Practicable Date, we have made applications for the registration of the trademarks such as Central China Express (中原快車), Central China Bible (中原寶典) and Central China Housekeeper (中原管家) in the PRC. See "Appendix VI – Statutory and General Information – Further information about our Business – Our intellectual property rights" to this prospectus for additional information. We have not been subject to any material infringement of our intellectual properties rights or allegations of infringements by third parties during the Track Record Period.

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While considering making applications for the registration of certain trademarks comprising 中原证券 and its variations in Hong Kong, we discovered that similar marks were registered in the names of companies in the Centaline (中原) group of companies which comprise, *inter alia*, 中原地產代理有限公司 (Centaline Property Agency Limited) and 中原證券有限公司 (Centaline Securities Limited), a company incorporated in Hong Kong engaging in the business of, among others, trading of securities and derivatives and ETF. The Centaline group of companies will herein be referred to as “**Centaline**.” To minimize the possible risks arising from potential legal proceedings brought by Centaline relying on claims for trademark infringement and/or passing off and any application made by Centaline for interlocutory injunctive relief in such proceedings, we have resolved not to make use of the Chinese name 中原证券股份有限公司 in the course of any trade or business carried on by us in Hong Kong but to instead trade and carry on business in Hong Kong under the Chinese name “中州证券.” Consequently, we have applied for the registration of the trademark “中州证券 Central China Securities” and the registration of “中州证券” as our business name in Hong Kong. In order to make it clear that our existing website (where the name “中原证券股份有限公司” has been used since 2002) is aimed and directed at the market and members of the public in the PRC but not at the market or members of the public in Hong Kong, we have put a prominent notice on our website to state that the services and facilities offered thereon are only intended for members of the public in the PRC and will take steps to ensure that members of the public in Hong Kong will not be allowed to be registered as users of or to use any of the online services and facilities made available on our existing website. As advised by our counsel, Mr. John M. Y. Yan, S.C., with such steps taken, the risks of Centaline successfully making a claim for either infringement of trademark or passing off against us, and in particular, obtaining an interlocutory injunction against us based on such claims would be very substantially minimized, even if we are required, for compliance purposes, to make reference to our original Chinese name, “中原证券股份有限公司” in our corporate communication documents, including announcements and circulars after the Listing. Furthermore, in line with the advice given by Mr. John M. Y. Yan, S. C., we have also provided guidelines to our employees that: (i) they should introduce our Company to our potential clients in the Chinese name of “中州证券” in Hong Kong; and (ii) they should use the Chinese name of “中州证券” for all external communication in Hong Kong. See “Risk Factors – The use of our Chinese name in this prospectus and the use of it in the course of trade or business in Hong Kong may be challenged due to potential trademark infringement and passing off” of this prospectus.

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### EMPLOYEES

We believe that our long-term growth depends on the knowledge, experience and development of our employees. Our human resources department is in charge of the employee recruitment, training, compensation and performance appraisal. As of December 31, 2013 and the Latest Practicable Date, we had 2,143 and 2,095 employees, respectively. The following table sets forth our total number of employees by business function as of the Latest Practicable Date:

	<b>Number of Employees</b>	<b>Percentage</b>
Brokerage . . . . .	1,615	77.1%
Investment banking . . . . .	93	4.3%
Investment management . . . . .	75	3.6%
Proprietary trading . . . . .	18	0.8%
Other innovative business . . . . .	11	0.6%
Research . . . . .	25	1.2%
Legal and compliance, risk management and finance . . . . .	117	5.6%
IT . . . . .	104	5.0%
Administrative . . . . .	37	1.8%
<b>Total</b> . . . . .	<b>2,095</b>	<b>100.0%</b>

The following table sets forth the breakdown of our employees by age, educational background and geographic region as of the Latest Practicable Date:

	<b>Item</b>	<b>Number</b>	<b>Percentage</b>
Age distribution . . . . .	30 or below . . . . .	1,023	48.8%
	31 to 40 . . . . .	776	37.0%
	41 to 50 . . . . .	276	13.2%
	51 to 60 . . . . .	20	1.0%
	<b>Total</b> . . . . .	<b>2,095</b>	<b>100.0%</b>
Educational background . . . . .	Master's degree or above . . . . .	285	13.6%
	Bachelor's degree . . . . .	1,298	62.0%
	Junior college graduate . . . . .	461	22.0%
	Below junior college graduate . . . . .	51	2.4%
<b>Total</b> . . . . .	<b>2,095</b>	<b>100.0%</b>	
Geographical region . . . . .	Henan . . . . .	1,642	78.4%
	Outside Henan . . . . .	453	21.6%
<b>Total</b> . . . . .	<b>2,095</b>	<b>100.0%</b>	

The compensation we offer to our employees primarily includes base salary and bonus. In general, we determine employee compensation based on each employee's performance, qualifications, position and seniority. In addition, we provide our employees with supplementary compensation benefits, such as study allowances, additional paid annual leaves, healthcare

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subsidies and food and beverage allowance. We value our employees as important assets and provide them with continuing education and on-job training and encourage them to pursue financial and accounting qualifications, such as sponsor representative, Chartered Financial Analyst, Certified International Investment Analyst and Financial Risk Manager. We primarily rely on job advertisements on the Internet and in the newspaper, campus recruitment programs and referrals in our recruitment process and do not engage third-party employment agencies. In accordance with applicable PRC laws and regulations, we make contributions to various government-sponsored employee benefit funds, including social insurance funds, basic pension insurance funds and unemployment, maternity and work related insurance funds.

We believe that we have maintained good relationships with our employees. We have established labor unions and our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We have not experienced significant labor disputes which have had or are likely to have a material and adverse effect on our business operations.

### INSURANCE

We maintain insurance coverage for certain of our assets, including IT equipment and motor vehicles. Consistent with customary practice in the PRC, we do not maintain any business interruption insurance.

We believe that we have maintained insurance coverage 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.

### PROPERTIES

Our headquarters are located at 19/F Central China Guangfa Financial Building, No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan. As of the Latest Practicable Date, in the PRC, we owned 66 properties with an aggregate gross floor area of 35,569.4 square meters and we leased 74 properties with an aggregate leasable area of approximately 70,477.9 square meters.

As of April 30, 2014, our property interests represented approximately 1.1% of our total assets. Accordingly, this prospectus is exempt from the requirements under the Hong Kong Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Hong Kong Listing Rules, a prospectus is exempt from this requirement if the carrying amounts of a listing applicant's property activities and non-property activities are below



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1.0% and 15.0%, respectively. A similar exemption applies under section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance and under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

### **Owned Properties**

As of the Latest Practicable Date, among our 66 owned properties in China:

- We have obtained the relevant building ownership certificates and land use rights certificates for six properties with an aggregate gross floor area of 7,126.5 square meters, representing 20.0% of the aggregate gross floor area of our owned properties. As advised by our PRC legal advisors, Beijing Junzhi Law Offices, we are the legal owner of such properties and we have the rights to occupy, utilize, generate income from and dispose of such properties.
- We have only obtained the building ownership certificates but not land use rights certificates for the remaining 60 properties with an aggregate gross floor area of 28,442.9 square meters, representing 80.0% of the aggregate gross floor area of our owned properties. As advised by our PRC legal advisors, as each of these 60 properties we own constitutes one or more units within one building and we share the land use rights of these properties with owners of other units within the same building, we are not required under relevant PRC laws to apply for land use rights certificates separately. Our PRC legal advisors have further advised us that we have the legal ownership of these 60 properties and are able to occupy, utilize, generate income from and dispose of such properties.

In addition, in October 2013, we acquired a parcel of land in Zhengzhou with a total site area of 10,002.9 square meters for RMB100.6 million, which we fully paid in cash. We are still in the process of applying for the land use right certificate for this parcel of land and we expect to receive such certificate during 2014. To support our business growth, we plan to develop and construct a new business complex on this new parcel of land during the second half of 2014 after we have received the relevant title certificate. See “Financial Information – Capital Expenditures.” Our Directors are of the view that, this defective title will not have a material and adverse effect on our business because (i) given we have fully paid the purchase price for this parcel of land, our PRC legal advisors confirm that there is no material legal impediment for us to obtain such title certificate if necessary procedural requirements are met; (ii) our business operations do not rely on this parcel of land; and (iii) according to the undertakings granted to us by our Controlling Shareholder, Henan Investment Group, on March 10, 2014, it will indemnify us against all losses, claims, charges or expenses arising from our failure to obtain the outstanding land use right certificate. In addition, our PRC legal advisors also confirmed that (i) the above undertakings given by our Controlling Shareholder are legal, valid and enforceable, and (ii) the existence of an outstanding land use right certificate on our acquired land prevents it from being bought, sold or being accepted by banks as securities for mortgage.



### **Leased Properties**

As of the Latest Practicable Date, we have leased 74 properties in China, with an aggregate gross floor area of 70,477.9 square meters. Our leased properties are primarily used for office and operational purposes, with gross floor areas ranging from 33.3 square meters to 8,000.0 square meters.

For 49 leased properties with an aggregate gross floor area of 43,417.7 square meters, representing 61.6% of the aggregate gross floor area of our leased properties, our landlords have obtained the relevant building ownership certificates. Our PRC legal advisors are of the view that the landlords of these 49 leased properties are the owners of, or authorized persons to lease or sublease, the respective properties and that the landlords have obtained valid title to the respective leased properties.

For 25 leased properties with an aggregate gross floor area of 27,060.2 square meters, representing 38.4% of the aggregate gross floor area of our leased properties, our landlords have not obtained the relevant building ownership certificates. We have requested that these landlords provide proof of authority to lease or apply for the relevant certificates. We use these 25 properties primarily for offices and branches. Among these 25 leased properties with defective title:

- Landlords of six properties with 6,299.3 square meters (representing 8.9% of the aggregate gross floor area of our leased properties) have obtained relevant construction work planning permits and, according to our PRC legal advisors, our lease agreements with these six landlords are legal, valid and enforceable and our rights in relation to the leased properties will be protected by law;
- Landlords of remaining 19 properties with 20,760.9 square meters (representing 29.5% of the aggregate gross floor area of our leased properties) have not obtained relevant construction work planning permits, but all of them have expressly agreed to indemnify us for losses or expenses arising from the title defects. We have been advised by our PRC legal advisors that we will have the rights to seek indemnity from the relevant landlords.

As advised by our PRC legal advisors, as these 25 properties are leased by us, we are not subject to potential legal liabilities because of the defective titles that our landlords hold. Our Directors are of the view that the defective titles will not individually or collectively have a material and adverse effect on our business because (i) the lease agreements for these 25 properties with defective titles have undertakings under which our landlords are required to indemnify us in full for all the costs we incur and losses we suffer as a result of the defective titles; and (ii) according to the undertakings granted to us by our controlling shareholder, Henan Investment Group on March 10, 2014, it will indemnify us against all losses, claims, charges or expenses arising from any disputes over the defective leased properties; our PRC legal advisors have confirmed that the above undertakings given by Henan Investment Group are legal, valid and enforceable; (iii) we do not consider these defective properties crucial to our core business operations; and (iv) we believe we are able to be relocated in a timely manner at minimal expense and would not materially affect our business or financial position.

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In addition, our Directors are also of the view that the rental costs for the 25 properties with defective title would not be materially different should the landlords obtain relevant building ownership certificates.

### LEGAL AND REGULATORY

#### Licensing Requirements

We conduct our securities business mainly in the PRC and are subject to the restrictions and regulatory requirements of the PRC. Our Directors and our PRC legal advisors, Beijing Junzhi Law Offices, have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements and guidelines in all material respects and obtained all permits and licenses necessary for our operations in accordance with the PRC laws and regulations, including, among others, licenses for conducting brokerage, margin financing and securities lending, underwriting and sponsorship, asset management and proprietary trading businesses. We are not required to renew these licenses, and during the Track Record Period and up to the Latest Practicable Date, these licenses have not been suspended due to material non-compliance incidents. To the best knowledge of our Directors, our Directors confirm that as of the Latest Practicable Date all of our employees, including sponsor representatives and brokers, have obtained the relevant licenses required for their business activities. During the Track Record Period and up to the Latest Practicable Date, neither our Company nor any of our Directors has been subject to auditing or administrative penalty by the CSRC or its local counterparts.

Other than as disclosed in this prospectus, we have complied with all relevant PRC laws and regulations in all material respects, including obtaining all required permits and licenses necessary to conduct our business in the PRC.

#### Legal Proceedings

From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business. Our Directors and our PRC legal advisors, Beijing Junzhi Law Offices, have confirmed that, as of the Latest Practicable Date, there is no legal proceeding pending or threatened against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

During the Track Record Period, we were involved in a material legal dispute with the Association of Pension Insurance for Rural Residents of Nanyang City (“Nanyang Pension Association”) for a potential claim against us of over RMB20 million, which was dismissed by the court in March 2012.

On November 20, 2010, Nanyang Pension Association filed a lawsuit with the civil division of Nanyang Municipal Court against us for alleged breach of a treasury bonds purchase agreement. Nanyang Pension Association sought to hold us liable for breach of contract and to recover the related funds and accrued interests, totaling approximately RMB20.2 million. We argued to the court, among others, that (i) we were incorporated in November 2002 and subsequently acquired the securities business-related assets of Henan Securities based on the approval letter from the CSRC and the Henan government regarding the establishment of Central

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China Securities. The remaining assets and all liabilities of Henan Securities were kept by Henan Securities, which is under liquidation process. See “History and Corporate Structure – Major Acquisitions – Acquisition of securities business-related assets of Henan Securities”; (ii) the treasury bonds purchase agreement was initially entered into with Henan Securities in 2001 during its existence and any liabilities arising from such agreement should be handled by the liquidator of Henan Securities; (iii) almost all funds held by Henan Securities on behalf of Nanyang Pension Association have been withdrawn by Nanyang Pension Association prior to our incorporation and Nanyang Pension Association closed its brokerage account on May 14, 2004; and (iv) the treasury bonds purchase agreement was void and non-enforceable. On March 15, 2012, the civil division of Nanyang Municipal Court dismissed Nanyang Pension Association’s claims on the basis that the case involved potential crimes with regard to financial matters. However, no specific crime was mentioned in this dismissal ruling. Nanyang Pension Association did not appeal this court ruling during the ten-day appeal period and our PRC legal advisors confirmed that the dismissal ruling remains effective and this legal proceeding is dismissed.

As of the Latest Practicable Date, neither we nor our employees were subject to any criminal investigation or prosecution relating to the potential crimes with regard to financial matters raised by the Nanyang Municipal Court and we were not provided with any information from the relevant judicial authorities that we would subject us or our employees to any criminal liabilities. Letters from the police departments of Henan and Zhengzhou dated May 16, 2014 confirmed the fact that we were not subject to any criminal investigation or prosecution nor were we involved in any alleged criminal offense. As such, we are not aware of any facts and circumstances which could give rise to criminal liabilities and are thereby unable to estimate the potential liabilities we may face. The general manager who was in charge of our Nanyang branch is not our Director nor a member of our senior management. He continues to work for us as we did not find any evidence of fault or misconduct on his part after our internal investigations.

Our PRC legal advisors are of the view that we will not be liable for any criminal offense in connection with the dismissed legal proceeding brought by Nanyang Pension Association, based on (i) a review of the executed treasury bonds purchase agreement and other related documents as well as records of Nanyang Pension Association’s account activities furnished by us, (ii) communications with our defense counsel for this case, and (iii) the letters from the police departments of Henan and Zhengzhou. In addition, according to an undertaking granted to us by our Controlling Shareholder, Henan Investment Group, on May 16, 2014, it will indemnify us against all losses, claims, charges or expenses arising from any related criminal investigation or prosecution we may face.

As a result, we believe that this dismissed legal proceeding will not adversely affect our financial condition and results of operations and, therefore, we did not set aside any provision for potential liabilities arising from this case. There is nothing that leads the Sole Sponsor to disagree with our decision not to make provisions for this case based on communications with our defense counsel and information and materials furnished by us, as well as considering that there is no indication that we would be subject to criminal liabilities or otherwise as of the Latest Practicable Date.

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### Regulatory Non-compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, including but not limited to the CSRC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and their respective local branches and offices. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no incidents of regulatory non-compliance that led to regulatory measures and the deduction of regulatory points by the CSRC or fines imposed by any regulatory authorities in China, or in which our employees were prosecuted or convicted.

We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and received regulatory notices from the relevant regulatory authorities.

No.	Non-compliance incidents	Brief explanation and our primary remedial measures
1	In April 2012, the CSRC's local branch in Shanghai issued a regulatory letter to us, requesting us to investigate whether an employee of our Shanghai branch has breached our internal rules on providing stock advice at investment seminars and on the Internet without appropriate licensing.	<p>After our investigation, we found it was an unauthorized act of an employee who did not hold relevant securities investment advisory qualification and has violated the "Interim Provisions on the Securities Investment Advisor Business" (《證券投資顧問業務暫行規定》) issued by the CSRC on October 12, 2010.</p> <p>After we became aware of this staff negligence, we immediately adopted the following remedial measures: (i) prohibiting such employee from commenting on the performance of listed companies at investment seminars and on blogs; (ii) issuing a severe reprimand to such employee; and (iii) withdrawing such employee's annual bonus in 2012. To prevent the recurrence of a similar non-compliance incident, we distributed guidelines internally to strengthen risk management in August 2012 and requested our internal compliance officers to oversee employee conduct, report any non-compliance incident immediately and impose penalties, such as reprimand, salary reductions and discharge of duties, on any employee who has violated our internal control requirements. We update these guidelines regularly and frequently remind our employees to comply with our guidelines. In addition, we require all employees to report and register their work-related blogs with us, and conduct real-time supervision and inspection on blogging activities by our employees on office computers to prevent them from releasing false and misleading information as well as commenting on individual stocks. We also display our investment advisors' qualification number and photos in our branches and on our websites and encourage our clients to report any provision of securities advisory services by unqualified employees.</p> <p>We submitted a report to the CSRC's local branch in Shanghai to explain the situation and remedial measures we adopted, and have not received any objections to our remedial report or remedial measures. Our PRC legal advisors confirm that this incident will not subject us to any regulatory penalty or fines.</p>

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No.	Non-compliance incidents	Brief explanation and our primary remedial measures
2	In April 2011, the Securities and Futures Association of Henan Province issued a public reprimand to our Tongbai Road Branch for charging commission rates on two securities brokerages customers' accounts lower than the recommended floor rate imposed by the Securities and Futures Association of Henan.	<p data-bbox="887 278 1398 480">After our investigation, we found this incident was caused by the branch staff's negligence in violating the "Interim Procedures for the Administration of Self-regulatory of Commission Rate by Securities and Futures Association of Henan Province" (《河南省證券期貨業協會證券會員交易佣金自律管理暫行辦法》), which has been abolished since April 2013.</p> <p data-bbox="887 506 1398 783">Immediately after the incident, we reviewed our account opening policies to ensure that they were fully compliant with the self-regulatory measures adopted by the Securities and Futures Association of Henan Province. We have also adopted the following remedial measures: (i) we dismissed the general manager in charge of this branch from his duties and had him redeployed; and (ii) we requested our compliance officers at our securities branches to emphasize our internal compliance rules among our employees.</p> <p data-bbox="887 808 1398 1468">To prevent the recurrence of a similar non-compliance incident, since May 2011, our legal and compliance department has started to monitor the applicable commission rate for each brokerage account on a real-time basis through our IT system and we will receive a warning notice when the actual commission rate we charge on an account is lower than a minimum threshold we determined based on the applicable regulations and/or market conditions. If such notice is received, our legal and compliance department will follow up immediately with the relevant securities branch to ensure that the commission rate is adjusted above our minimum threshold accordingly. We also published the applicable minimum commission rate at each of our securities branches in Henan. As a result, we did not execute any securities brokerage transaction with a commission rate lower than the minimum rate. In April 2013, the minimum commission rate requirement was abolished by the Securities and Futures Association of Henan. Any client who desires a rate lower than our pre-determined minimum commission rate is subject to approval from our sales and marketing department at our headquarters.</p> <p data-bbox="887 1493 1398 1696">We submitted a report to the Securities and Futures Association of Henan Province to explain the situation and remedial measures we adopted, and have not received any objections to our remedial report or remedial measures. Our PRC legal advisors confirm that this incident will not subject us to any regulatory penalty or fines.</p>

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Our Directors and our PRC legal advisors, Beijing Junzhi Law Offices, confirmed that (i) the foregoing non-compliance incidents are immaterial and did not and will not have any material adverse effect on our business, financial position and results of operations as well as the Global Offering; and (ii) during the Track Record Period and up to the Latest Practicable Date, there is no regulatory non-compliance incident that could have a material adverse effect on our business, financial condition or results of operations. None of our Directors nor any member of our senior management was directly involved in the foregoing non-compliance incidents. Based on (a) the immateriality of our non-compliance incidents, (b) the internal control measures we have enhanced and adopted pursuant to recommendations made by an internal control consultant, and (c) the foregoing legal advice from our PRC legal advisors, Beijing Junzhi Law Offices, our Directors are of the view that (i) we have adequate and effective internal controls; (ii) it is unnecessary to make any provision for these non-compliance incidents; and (iii) such incidents do not affect the suitability of our Directors and our suitability for listing. After making reasonable inquiries with us in relation to the non-compliance incidents and the remedial measures taken, there is nothing that leads the Sole Sponsor to disagree with our view.

### **Regulatory inspections**

The CSRC and other regulatory agencies conduct periodic or random inspections, examinations and inquiries in respect of our compliance with the laws, regulations, guidelines and regulatory requirements applicable to us and our business. During the Track Record Period and up to the Latest Practicable Date, the periodic and random inspections conducted on us by the CSRC and its local delegate offices covered our risk management, internal control, corporate governance and various business areas that we are engaged in, and the scope of which included our various securities and futures branches. Although these inspections have not revealed any material risks or non-compliance incidents and have not resulted in any fines or other administrative penalties, they revealed certain deficiencies with respect to our business operations, risk management and internal controls. We immediately took remedial measures and improved our risk management and internal control systems based on the regulatory agencies' recommendations. The following sets forth examples of recent inspections:

- In August 2013, CSRC's local branch in Shandong conducted an on-site inspection of our securities branch in Jinan, Shandong Province, and on August 22, 2013 the local branch issued a regulatory opinion to us, which identified the following issues: (i) the lack of proper records for the obtaining of blank contracts; (ii) the lack of numbering of our off-site account opening contracts; (iii) the lack of records whether margin financing and securities lending customers have any prior incident of breaching material contracts; (iv) risk management department not involved in approving credit limit under RMB10.0 million; and (v) inconsistent risk evaluation results of clients' credit risks among various IT systems. We took immediate remedial measures by (i) assigning dedicated staff to keep track of the use of blank contracts, (ii) applying numbered contracts for off-site account openings, (iii) requesting records of whether margin financing and securities lending customers have any incidents of a breach of material contracts; (iv) enhancing compliance with hierarchical authorization procedures for setting a customer's credit limit; and (v) adopting a single IT system

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for client credit risk evaluation. On September 9, 2013, we submitted a remedial report to the CSRC's local branch in Shandong, and as of the Latest Practicable Date, we have not received any objection from such authority to our remedial measures nor the remedial report.

- In July 2012, the PBOC's local branch in Sanmenxia, Henan conducted an on-site inspection of our Sanmenxia branch on anti-money laundry practices. In the same month, such local branch issued a regulatory opinion to us, which identified certain deficiencies in our internal procedures in relation to confirming client identity and completing client basic information in editing client information, retrieving lost password and closing of accounts. We took immediate remedial measures by (i) improving the knowledge of, and skills in carrying out, anti-money laundering duties among our staff, and (ii) requesting internal confirmation and review of know-your-client documents to ensure its accuracy and completeness. We submitted a remedial report to the Sanmenxia branch of the PBOC in July 2012, and as of the Latest Practicable Date, we have not received any objection from such authority to our remedial measures nor the remedial report.



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## CONNECTED TRANSACTIONS

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### CONNECTED PERSONS

Following the Global Offering, our Controlling Shareholder, Henan Investment Group, will hold approximately 33.096% of the total issued share capital of the Company. Under Rule 14A.11(1) and (4) of the Hong Kong Listing Rules, Henan Investment Group and its associates are our connected persons.

Accordingly, our transactions with such connected persons will constitute connected transactions and continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules upon the Listing.

### EXEMPT CONNECTED TRANSACTION

#### Non-Competition Agreement

We entered into a non-competition agreement with our Controlling Shareholder, Henan Investment Group, on March 10, 2014. Pursuant to which, we are granted right of first refusal in the New Business Opportunities relating to our principal business, as well as the pre-emptive rights to acquire New Business Opportunities. See “Relationship with our Controlling Shareholder”.

When we decide whether to exercise the right of first refusal and/or the pre-emptive rights granted under the said non-competition agreement, we shall comply with the relevant requirements under the Hong Kong Listing Rules.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon the Listing, the following transactions will continue, thereby constituting continuing connected transactions. However, they will be exempted from the reporting, annual review, announcement and independent shareholders’ approval under Chapter 14A of the Hong Kong Listing Rules.

#### Provision of securities brokerage services

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the Directors, Supervisors, President, substantial shareholders and former Directors of our Group who were Directors within 12 months preceding the date of the Listing and the respective associates of the aforesaid persons are our connected persons. In our ordinary course of business, we provide securities brokerage services to certain of our connected persons in accordance with the applicable laws and regulations. The terms and conditions of the securities brokerage services which we offered to such connected persons are comparable to those offered to Independent Third Parties. It is expected that we will continue to provide securities brokerage services to such connected persons upon the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

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## CONNECTED TRANSACTIONS

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The revenue we received for such securities brokerage services to our connected persons for the three years ended December 31, 2011, 2012 and 2013 are as follows:

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Revenue received for the securities brokerage services provided to our connected persons . . . . .	0.8	0.2	0.5

Taking into account the historical figures of our revenue derived from the provision of securities brokerage services to our connected persons, the applicable percentage ratios as defined in the Hong Kong Listing Rules are expected to be less than 0.1%, within the de minimis threshold stipulated in Rule 14A.33(3) of the Hong Kong Listing Rules.

On the basis that the terms and conditions of the securities brokerage services which we will continue to offer to our connected persons after the Listing are comparable to those offered to our Independent Third Parties, where the applicable percentage ratio in respect of revenue from securities brokerage services charged by our Company to any of our connected persons exceeds the de minimis threshold stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, or beyond the scope of exemption specified in Rule 14A.31(7) of the Hong Kong Listing Rules, we shall observe and comply with the provisions under the Hong Kong Listing Rules in relation to the requirements for reporting, announcement, annual review and approval of independent shareholders.

### TERMINATED CONTINUING CONNECTED TRANSACTION

During the Track Record Period, we also provided research services to our Controlling Shareholder, Henan Investment Group. Nonetheless, the provision of such services was terminated in March 2014 and therefore will not constitute any continuing connected transaction of our Company upon the Listing. For details of the historical figures of such terminated continuing connected transactions, see “Appendix I – Accountant’s Report – 49 Related Party Transactions.”

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### SUMMARY INFORMATION OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table set forth information regarding our current Directors, Supervisors and senior management. Our Directors and Supervisors all meet the qualification requirements under relevant PRC laws and regulations and the Hong Kong Listing Rules for their respective position except for the waiver as to executive Director in the section “Waiver from Strict Compliance with the Hong Kong Listing Rules.”

Name	Age	Position	Responsibilities	Residential/ Business address	Date of appointment of current position	Date of joining our Company <sup>(1)</sup>
<b>Directors</b>						
JIAN Mingjun (菅明軍)	51	Chairman of the Board and Executive Director	Responsible for formulating our corporate and business strategies and making major corporate and operational decisions, presiding at the shareholder meeting, convening and presiding at the board meeting, supervising and examining the execution of Board resolutions, taking responsibilities as legal representative	West Room, 6/F, Building 6, Guolong Shui’an Garden, Hongtu Street, Zhengdong New District, Zhengzhou, Henan Province, China	August 15, 2012	December 2007
ZHOU Xiaoquan (周小全)	41	Executive Director and President (the “ <b>President</b> ”)	Responsible for formulating our corporate and business strategies and making major corporate and operational decisions and being fully responsible for our daily operation and management	West Room, 4/F, Unit 1, Building 16, Phase VII of Lianmeng Xincheng, Nongye Road, Zhengdong New District, Zhengzhou, Henan Province, China	August 15, 2012	March 2009
LI Xingjia (李興佳)	49	Non-executive Director	Participating in formulating our corporate and business strategies and decision- making of significant events	No. 38, Building 3, North 27 Yard, Jing’er Road, Jinshui District, Zhengzhou, Henan Province, China	August 15, 2012	June 2008

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Responsibilities	Residential/ Business address	Date of appointment of current position	Date of joining our Company <sup>(1)</sup>
WANG Jinian (王紀年)	64	Non-executive Director	As above	Room 2062, No. 15 Huaibaishu Street, Xicheng District, Beijing, China	August 15, 2012	November 2002
ZHANG Qiang (張強)	50	Non-executive Director	As above	No. 18, Building 8, No. 8 Yard, Qidong Road, Yindu District, Anyang, Henan Province, China	August 15, 2012	August 2012
ZHU Shanli (朱善利)	60	Independent non-executive Director	Participating in formulating our corporate and business strategies and decision- making of significant events, and taking responsibilities of independent non- executive Director conferred by relevant laws, regulations and the Articles of Association	No. 1606, Building 4, Lanqiyong, Haidian District, Beijing, China	August 15, 2012	August 2012
YUAN Dejun (苑德軍)	63	Independent non-executive Director	As above	Room 305, Building 8, Longxiang, Jiayuan, Olympic Village, Chaoyang District, Beijing, China	August 15, 2012	August 2012
SHI Dan (史丹)	53	Independent non-executive Director	As above	No.1201, Unit 1, Building 3, Muxidi Apartment, Xicheng District, Beijing, China	August 15, 2012	August 2012
YUEN Chi Wai (袁志偉)	38	Independent non-executive Director	As above	Flat C, 16/F, Block 2, The Grand Panorama, 10 Robinson Road, Mid-Levels, Hong Kong	June 4, 2014	June 4, 2014

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Responsibilities	Residential/ Business address	Date of appointment of current position	Date of joining our Company <sup>(1)</sup>
<b>Supervisors</b>						
ZHOU Jianzhong (周建中)	58	Chairman of the Supervisory Committee	Presiding over the Supervisory Committee; supervising our operational and financial activities	No. 3, Building 6, No. 3 Yard, Jingba Road, Jinshui District, Zhengzhou, Henan Province, China	August 15, 2012	November 2002
WANG Rui (王銳)	53	Shareholder representative Supervisor	Supervising our operational and financial activities	No. 7, Building 1, No. 104 Yard, Jinshui Road, Jinshui District, Zhengzhou, Henan Province, China	November 14, 2013	November 2013
YAN Changkuan (閆長寬)	50	Shareholder representative Supervisor	As above	No. 3, Building 57, No. 56 Yard, Wenfeng Avenue, Yindu District, Anyang, Henan Province, China	August 15, 2012	June 2006
JI Guangyuan (姬廣遠)	40	Shareholder representative Supervisor	As above	West Room, 3/F, Unit 4, Building 9, Phase II of Huanshang Renjia, Huanbin North Road, Huanbei Street Office, Beiguan District, Anyang, Henan Province, China	August 15, 2012	June 2009
ZHU Qiben (朱啟本)	49	Employee representative Supervisor	As above	No. 8, Building 6, No. 90 Yard, Wenhua Road, Jinshui District, Zhengzhou, Henan Province, China	May 29, 2012	November 2002
LI Feng (李峰)	42	Employee representative Supervisor	As above	No. 74, Building 4, No. 6 Yard, Xinyuan West Road, Jinshui District, Zhengzhou, Henan Province, China	May 29, 2012	November 2002

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Responsibilities	Residential/ Business address	Date of appointment of current position	Date of joining our Company <sup>(1)</sup>
<b>Senior Management (other than Mr. Zhou Xiaoquan, our executive Director and President)</b>						
LU Zhili (魯智禮)	47	Standing Vice President	Participating in the daily management and operations; assisting the President in our daily operation and management	No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China	March 20, 2013	November 2002
ZHU Jianmin (朱建民)	51	Vice President	Participating in the daily management and operations	As above	August 15, 2012	November 2002
ZHU Junhong (朱軍紅)	44	Vice President and Chief Financial Officer	Participating in the daily management and operations; assisting the President in financial planning	As above	August 15, 2012	November 2002
AN Xiaolang (安曉朗)	58	Chief Auditing Officer	Participating in the daily management, responsible for the supervision of internal control and audit	As above	August 15, 2012	May 2003
FANG Jianmin (房建民)	42	Vice President	Participating in the daily management and operations	As above	August 15, 2012	May 2008
ZHAO Jizeng (趙繼增)	49	Vice President	Participating in the daily management and operations	As above	August 15, 2012	November 2002
XU Haijun (徐海軍)	43	Chief Compliance Officer	Participating in the daily management and responsible for legal compliance and risk management	As above	August 15, 2012	November 2002
XIE Xuezhu (謝雪竹)	44	Secretary to the Board	Participating in the daily management and responsible for administration of the Board's matters	As above	August 15, 2012	November 2002
ZHAO Lifeng (趙麗峰)	42	Vice President	Participating in daily management and operations	As above	August 15, 2012	May 2004

*Note:*

For each of the non-executive Directors and shareholder representative Supervisors, the date of joining our Company means the date on which he or she was appointed a Director or Supervisor, respectively, for the first time.

**BOARD OF DIRECTORS**

According to the Articles of Association, the Board comprises nine Directors. The term of service for Directors is three years, and Directors are permitted to be re-elected. Independent non-executive Directors may not serve for more than six consecutive years. Responsibilities of the Board include but are not limited to (i) executing Shareholders' resolutions and reporting Shareholders' meeting; (ii) making decision on operation plan, financial, capital and investment plan; (iii) determining internal management structure setting down fundamental management rules; (iv) appointing and discharging members of senior management, determining Directors' remuneration and distribution plan; and (v) taking responsibilities pursuant to relevant laws, regulations and the Articles of Association.

**Directors**

**Mr. JIAN Mingjun (菅明軍)**, aged 51, has been the chairman of the Board (the "Chairman") and the executive Director since August, 2012. Mr. Jian joined our Company in December 2007 as the deputy party secretary of our Company, and served as our executive Director and president from October 2008 to August 2012. Before he joined our Company, he used to be the vice chief officer of the planning office of our Company during the period from October 2000 to October 2002. Mr. Jian has 28 years' experience in finance industry and served in various positions in governmental departments and institutions. Mr. Jian served in Comprehensive Plan Office of Ministry of Finance of the PRC (中國財政部綜合計劃司) from August 1985 to January 1987. Mr. Jian then served in Finance Department of Henan Province (河南省財政廳) from January 1987 to May 1997. Mr. Jian served as the standing vice president of ASIA (group) Accounting Firm (亞太會計集團) from May 1997 to June 2000. Mr. Jian was the director of General Office of Finance Department of Henan Province during the period from June 2000 to October 2000 and the period from October 2002 to December 2002. Mr. Jian was the chairman of State-owned Enterprises Supervisory Committee of the Henan Government (河南省政府省管國有企業監事會) from December 2002 to December 2007. Mr. Jian is currently a member of Henan Provincial People's Congress (河南省人民代表大會), Financial and Economic Affairs Committee of Henan Provincial People's Congress (河南省人民代表大會財政經濟委員會), and the Investment Bank Committee under SAC (中國證券業協會投資銀行專業委員會), and the president of the Securities and Futures Association of Henan (河南省證券期貨業協會). Mr. Jian was granted the honourous title of model worker of Henan by Henan Government in April 2014 and was awarded as "People of 2013 – Henan Economic" in January 2014. He was also chosen as the "Most Influential Enterprise Leader in Central China" for four consecutive years from 2009 by mainstream media in Henan.

Mr. Jian graduated from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Economics) (中南財經政法大學, 前稱中南財經大學) (located in Wuhan city, the PRC) with a bachelor degree of economics majoring in public finance in July 1985. Mr. Jian was admitted exceptionally by Research Institute for Fiscal Science, Ministry of Finance (財政部財政科學研究所) (located in Beijing city, the PRC) to study public finance in September 1997 and obtained a doctoral degree of economics in July 2000. Mr. Jian has obtained senior accountant qualification granted by the Henan Government in July 2000 and a Provincial Excellent Expert granted by CPC Henan Province Committee (中共河南省委) and the Henan Government in May 2002.



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. ZHOU Xiaoquan (周小全)**, aged 41, has been an executive Director and the President of the Company since August 2012. Mr. Zhou joined our Company in March 2009 and served as the chairman of Supervisory Committee and the secretary of the party committee for disciplinary inspection of our Company for the period from March 2009 to August 2012. Mr. Zhou is a director of Ashmore-CCSC Fund Management since January 2013. Mr. Zhou is experienced in finance industry. Before he joined our Company, Mr. Zhou worked in the credit and loan department and corporate department of China Construction Bank Corporation (中國建設銀行股份有限公司) respectively from July 1999 to November 2002. Mr. Zhou worked in the supervisory working department of CPC Central Financial Work Committee (which subsequently transformed into the CBRC) (中共中央金融工作委員會，後改制為中國銀監會) from November 2002 to August 2003. Mr. Zhou then worked consecutively in the supervisory committee of National Financial Institutions department of the CSRC (中國證監會國有金融機構監事會), Institution Supervision Department of the CSRC (中國證監會機構監管部) and Securities Companies Risk Management Office of the CSRC (中國證監會證券公司風險處置辦公室) from August 2003 to February 2009. Mr. Zhou is currently a deputy director of Securities Companies Compliance Committee of the SAC (中國證券業協會證券公司合規專業委員會).

Mr. Zhou graduated from Wuhan Polytechnic University (formerly known as Wuhan Engineering College (武漢輕工大學，前稱武漢工業學院) (located in Wuhan city, the PRC) with a bachelor degree of engineering majoring in food engineering in June 1995; he obtained a master degree of economics majoring in industrial economics from Zhongnan University of Economics and Law in June 1999 and a doctoral degree of economics majoring in industrial economics from Zhongnan University of Economics and Law in June 2003. Mr. Zhou is awarded as a Provincial Excellent Expert by CPC Henan Province Committee and the Henan Government in June 2011 and as a State Council Expert for Special Allowance by the State Council in February 2013.

**Mr. LI Xingjia (李興佳)**, aged 49, has been a non-executive Director since June 2008. Mr. Li worked in Henan Construction and Investment as the chief economist and deputy general manager from March 2003 to October 2007. He worked in Henan Investment Group as a temporary officer responsible for asset management department I and the chief technology officer consecutively from October 2007 to June 2010 and has been appointed as deputy general manager since June 2010. Mr. Li is currently a member of Henan Provincial People's Congress.

Mr. Li obtained a bachelor degree of engineering majoring in urban gas thermal engineering from Harbin Engineering University (formerly known as Harbin Engineering College) (哈爾濱工程大學，前稱哈爾濱工程學院) (located in Haerbin city, the PRC) in July 1984 and studied the post-graduate course of public administration from Tsinghua University (清華大學) (located in Beijing city, the PRC) and obtained a graduation certificate in April 2004.

**Mr. WANG Jinian (王紀年)**, aged 64, has been a non-executive Director since November 2002. Mr. Wang used to work in Xuchang Relay Electric Appliance Factory (許昌繼電器廠) as the workshop leader, chief of production section, deputy production factory manager, factory manager and deputy party secretary consecutively from April 1970 to March 1993. He served as the chairman of the board of directors, general manager and deputy party secretary of the XJ

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Electric Co., Ltd. (許繼電氣股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 000400) consecutively from March 1993 to December 1996 and as the chairman of the board of directors, general manager, deputy party secretary and party secretary of Xuji Group consecutively from December 1996 to May 2010. Mr. Wang was the chairman of the board of directors of China Electric Power Equipment and Technology Co., Ltd. (中國電力技術裝備有限公司) and also the chairman of the board of directors of Xuji Group from May 2010 to October 2011. Mr. Wang has been the vice president of Guoneng Energy Company Limited (國能集團有限公司) since October 2012.

Mr. Wang studied economics in the Party School of the Central Committee of the CPC (中共中央黨校) (located in Beijing city, the PRC) and obtained an on-job postgraduate graduation certificate in January 2003.

**Mr. ZHANG Qiang (張強)**, aged 50, has been a non-executive Director since August 2012. Mr. Zhang served as the deputy general manager of medium factory of Anyang Iron & Steel Co., Ltd. (安陽鋼鐵股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600569) from August 1983 to March 2002, and the deputy general manager of the third steel mill of Anyang Iron & Steel Co., Ltd. from March 2002 to August 2005. Mr. Zhang worked in Anyang Iron & Steel Group as the deputy director of the planning department from August 2005 to April 2008 and has been the deputy division director of the strategy investment department of Anyang Iron & Steel Co., Ltd. since April 2008.

Mr. Zhang graduated from Northeastern University (formerly known as Northeastern Engineering College) (東北大學，前稱東北工學院) (located in Shenyang city, the PRC) majoring in pressurized metal process in July 1983. Mr. Zhang obtained the professional qualification of senior engineer from the Henan Government in December 1996.

**Mr. ZHU Shanli (朱善利)**, aged 60, has been an independent non-executive Director since August 2012. Mr. Zhu has been working in Guanghua School of Management, Peking University (北京大學) as the deputy professor and professor consecutively since September 1992. He used to serve as the director of department of economics and management and the assistant dean of Guanghua School of Management, and he is currently the director of academy committee, professor and doctor tutor of Guanghua School of Management.

Mr. Zhu obtained his bachelor degree of economics majoring in political economics and from Peking University (北京大學) (located in Beijing city, the PRC) in January 1982 and the master degree of economics majoring in foreign history of economic thoughts from Peking University in July 1984. Mr. Zhu obtained a doctoral degree majoring in economics from Peking University in July 1992. Mr. Zhu has been currently a State Council Expert for Special Allowance granted by the State Council since April 1999.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. YUAN Dejun (苑德軍)**, aged 63, has been an independent non-executive Director since August 2012. Mr. Yuan taught in Harbin Finance University (formerly known as Harbin Finance Institution) (哈爾濱金融學院，前稱哈爾濱金融高等專科學校) as an associate professor from September 1982 to January 1995, and taught in Tianjin University of Finance & Economics (天津財經大學) as a professor from February 1995 to October 2000. Mr. Yuan used to be the senior economist of China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司) from November 2000 to January 2012. Mr. Yuan has been an independent non-executive director of Ningxia Qinglong Pipes Industry Co., Ltd. (寧夏青龍管業股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 002457) since January 2014.

Mr. Yuan obtained his bachelor degree majoring in finance from Jilin University of Finance and Economics (formerly known as Jilin College of Finance and Economics) (吉林財經大學，前稱吉林財經學院) (located in Changchun city, the PRC) in July 1982. He studied in Japan's Nomura Securities Companies and Nomura Research Institute (日本野村證券公司及野村綜合研究所) (located in Japan) and obtained an on-job graduation certificate in November 1985. Mr. Yuan obtained doctoral degree of economics majoring in applied economics from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) (located in Beijing city, the PRC) in June 2000.

**Ms. SHI Dan (史丹)**, aged 53, has been an independent non-executive Director since August 2012. Ms. Shi was an assistant to dean of Institute of Industrial Economics of Chinese Academy of Social Science (中國社會科學院工業經濟研究所) from October 1993 to August 2010, the assistant dean of Institute of Finance and Trade Economics, Chinese Academy of Social Sciences (中國社會科學院財政與貿易經濟研究所) from August 2010 to December 2011 and the assistant dean of National Academy of Economic Strategy, Chinese Academy of Social Sciences (中國社會科學院財經戰略研究院) from December 2011 to November 2013. She has been the assistant dean and party secretary of Institute of Industrial Economics of Chinese Academy of Social Science since November 2013. Ms. Shi has been an independent non-executive director of Shanxi Top Energy Company Ltd. (山西通寶能源股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600780) since May 2010 and Hunan Corun New Energy Co., Ltd. (湖南科力遠新能源股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600478) since March 2012.

Ms. Shi obtained her bachelor degree of engineering majoring in industrial management and engineering from Changchun University of Technology (formerly known as Jilin Engineering College) (長春工業大學，前稱吉林工學院) (located in Jilin city, the PRC) in July 1983 and a master degree of economics majoring in industrial enterprise management from Renmin University of China in July 1988. Ms. Shi obtained a doctoral degree of management majoring in management science and engineering from Huazhong University of Science and Technology (華中科技大學) (located in Wuhan city, the PRC) in July 2003.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. YUEN Chi Wai (袁志偉)**, aged 38, has been our independent non-executive Director since June 4, 2014. Mr. Yuen is experienced in auditing, corporate internal control, and financial and risk management. Mr. Yuen used to work as an auditor in Charles Mar Fan & Co. (香港馬炎璋會計師行) from February 1998 to April 2000, and an auditor in Arthur Andersen (安達信會計師事務所) from May 2000 to June 2002. Mr. Yuen worked in PricewaterhouseCoopers (Hong Kong) from July 2002 to August 2005 served consecutively as an auditor; and worked in Beijing branch and Shenzhen branch of PricewaterhouseCoopers from August 2005 to December 2009 served consecutively as an auditor. Mr. Yuen has been the chief financial officer and company secretary of Bolina Holding Co., Ltd. (航標控股有限公司) (listed on Hong Kong Stock Exchange, stock code: 1190) since May 2011.

Mr. Yuen graduated from the University of New South Wales (located in the Commonwealth of Australia) with a bachelor's degree majoring in commerce in April 1998. He was admitted as a fellow member of Certified Public Accountants of Australia in June 2001 and a fellow member of the Hong Kong Institute of Certified Public Accountants in March 2013.

### SUPERVISORY COMMITTEE

The Supervisory Committee comprises six members. The term of service for each Supervisor is three years, and Supervisors are permitted to be re-elected. The responsibilities of the Supervisory Committee include but are not limited to (i) reviewing and verifying financial reports and profit distribution plans prepared by the Board and monitoring our financial activities; (ii) appointing certified public accountants and practicing auditors to re-examine our Company's financial information when necessary; (iii) requesting the Directors, the President and members of the senior management of our Company to rectify any actions which prejudice against the interests of our Company; and (iv) exercising other powers, functions and duties as conferred by the Articles of Association.

### Supervisors

**Mr. ZHOU Jianzhong (周建中)**, aged 58, has been the chairman of Supervisory Committee and secretary of the party committee for disciplinary inspection of our Company since August 2012. Mr. Zhou joined our Company and served as vice President and standing vice President consecutively from November 2002 to August 2012. Before joining our Company, he was the deputy county mayor of Xiuwu County, Jiaozuo City (焦作市修武縣) the PRC from August 1993 to February 1996. He then served as the deputy general manager and deputy party secretary of Henan Zhongyuan Oil & Gas Development Company (河南省中原石油天然氣開發有限公司) from February 1996 to March 1997, and as the deputy director of Henan Province Tendering Center of Mach. & Elec. Equipment (河南省機電設備招標中心) from March 1997 to November 2002.

Mr. Zhou obtained a bachelor degree of engineering majoring in mining engineering, manufacturing and repairing from Henan Polytechnic University (formerly known as Jiaozuo Mining Industry Institute) (河南理工大學, 前稱焦作礦業學院) (located in Jiaozuo city, the PRC) in July 1982.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Ms. WANG Rui (王銳)**, aged 53, has been a Shareholder representative Supervisor since November 2013. Ms. Wang worked in Henan Economic and Technology Development from January 1992 to October 2007 and served consecutively as its director of general office, director of planning and finance department and the chairman of the labor union. Ms. Wang has been working as the director of the auditing department and human resource department in Henan Investment Group from October 2007 to July 2013. Ms. Wang has been the director of the auditing department in Henan Investment Group since July 2013.

Ms. Wang majored in public finance and graduated from Henan Radio & Television University (河南廣播電視大學) (located in Zhengzhou city, the PRC) in December 1986.

**Mr. YAN Changkuan (閔長寬)**, aged 50, has been a Shareholder representative Supervisor since June 2006. Mr. Yan served consecutively as the assistant to the director of financial department and the deputy director of financial department of Anyang Iron & Steel Group from March 1996 to March 2002. He was the secretary to the board of directors and the head of the securities department of Anyang Iron & Steel Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600569) from April 2002 to April 2006. Mr. Yan served as the director of the financial department of Anyang Iron & Steel Group from May 2006 to August 2011 and a director of Anyang Iron & Steel Co., Ltd. from November 2009 to November 2012. Mr. Yan was the director of the financial department and the general accountant of Anyang Iron & Steel Group from August 2011 to December 2013. Mr. Yan only serves as the general accountant of Anyang Iron & Steel Group since December 2013.

Mr. Yan graduated from Henan Industrial School (formerly known as Henan Metallurgy Industrial School (河南省工業學校, 前稱河南省冶金工業學校) (located in Zhengzhou city, the PRC) majoring in industrial accounting in July 1982. Mr. Yan graduated from Henan Provincial Party School (中共河南省委黨校) (located in Zhengzhou city, the PRC) with a bachelor degree majoring in economic management in December 1996. Mr. Yan obtained senior accountant qualification and senior accountant of professor class qualification granted by the Henan Government in December 1997 and September 2012, respectively.

**Mr. JI Guangyuan (姬廣遠)**, aged 40, has been a Shareholder representative Supervisor since June 2009. Mr. Ji served consecutively as a manager, general manager, the chairman of the board of directors and the party secretary of Anyang Economic Development from March 2009 to February 2013. Mr. Ji worked as an assistant to the general manager of Henan Post (河南省郵政公司) from February 2013 to February 2014. Mr. Ji has been deputy general manager in Henan Agric Synthesis Exploitation Co., Ltd. (河南省農業綜合開發公司) since February 2014.

Mr. Ji studied accounting in Shanxi University of Finance & Economics (山西財經大學) (located in Taiyuan city, the PRC) and obtained an on-job graduation certificate in July 2002.



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. ZHU Qiben (朱啟本)**, aged 49, has been an employee representative Supervisor since April 2007. Mr. Zhu joined our Company since our incorporation in November 2002. He served as the vice general manager of our human resource management department from November 2002 to October 2007 and has been appointed as the general manager of our human resources management department since October 2007. He has also served as the assistant to the President since March 2013. Before he joined our Company, Mr. Zhu was the project manager of the investment banking department and the assistant to director of general office of Henan Securities from July 1998 to November 2002.

Mr. Zhu obtained his bachelor degree of science majoring in mathematics from Henan University (河南大學) (located in Kaifeng city, the PRC) in July 1988 and obtained his master degree of economics majoring in industrial economics from Sichuan Academy of Science (四川省社會科學院) (located in Chengdu city, the PRC) in July 1998.

**Mr. LI Feng (李峰)**, aged 42, has been an employee representative Supervisor since February 2008. Mr. Li joined our Company since our incorporation in November 2002, he worked consecutively as the manager of our Xinxiang Renming Road branch, the manager of our Shanghai Dalian Western Road branch, the general manager of brokerage department and the general manager of our marketing department from November 2002 to February 2013. He has been the general manager of our innovation business department from February 2013 to January 2014. Mr. Li has been the assistant to President and the general manager of innovation business department since January 2014. Before he joined our Company, Mr. Li worked consecutively as the manager of Sanmenxia securities trading branch and the deputy manager and manager of Sanmenxia securities trading branch of Henan Securities from July 1996 to November 2002.

Mr. Li graduated from Xi'an University of Architecture and Technology (formerly known as Xi'an Metallurgy Architecture College) (西安建築科技大學，前稱西安冶金建築學院) (located in Xi'an city, the PRC) with a bachelor degree of engineering in metallurgy of non-ferrous metal in July 1993. He also obtained a master degree of engineering in metallurgy physics and chemistry from Xi'an University of Architecture and Technology in April 1996.

### SENIOR MANAGEMENT

**Mr. ZHOU Xiaoquan (周小全)**, has been our executive Director and President since August 2012. See “– Directors” for further details.

**Mr. LU Zhili (魯智禮)**, aged 47, has been the standing vice President of our Company since March 2013. Mr. Lu joined our Company since our incorporation in November 2002 and served as the vice President from November 2002 to March 2013. Mr. Lu has been the director of Central China Futures and Ashmore-CCSC Fund Management since March 2008 and January 2013 respectively. Before joining our Company, Mr. Lu worked consecutively as the manager of the securities issuance department, assistant to general manager and chairman of the research department of Henan Securities from September 1992 to November 2002.

Mr. Lu obtained a bachelor degree majoring in physics from Henan Normal University (河南師範大學) (located in the PRC) in July 1989. He obtained a master degree of economics majoring in national economics from Shanghai University of Finance and Economics (上海財經大學) (located in the PRC) in February 2001. The Henan government granted the qualification of senior economist to Mr. Lu in March 2002.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. ZHU Jianmin (朱建民)**, aged 51, has been a vice President of our Company since August 2007. Mr. Zhu joined our Company since our incorporation in November 2002 and served consecutively as the director of President's office, general manager of the brokerage department, and assistant to the President from November 2002 to August 2007. Before that, Mr. Zhu served as the chief officer of the planning office of our Company from January 2001 to November 2002. Before joining our Company, Mr. Zhu worked in Henan Securities and served consecutively as the deputy manager of the issuance department, manager of the operation department of Funiu Road Branch, director of Beijing office, manager of the brokerage management department, and general manager of the operation department of Shangqiu branch from October 1993 to January 2001. Mr. Zhu is currently a member of the Professional Committee of Securities Brokerage of SAC and the executive vice president of the Securities and Futures Association of Henan Province.

Mr. Zhu obtained a bachelor degree in science majoring in thermal power from Xi'an Jiaotong University (西安交通大學) (located in Xi'an city, the PRC) in July 1984. In July 2010, Mr. Zhu obtained an Executive MBA degree from Fudan University (復旦大學) (located in Shanghai city, the PRC). The Henan government granted the qualification of senior economist to Mr. Zhu in May 2003.

**Ms. ZHU Junhong (朱軍紅)**, aged 44, has been the vice President, chief financial officer and general accountant of our Company since August 2012. Ms. Zhu joined our Company since our incorporation in November 2002, and served consecutively as assistant to the President, principal officer of finance department and general accountant and chief financial officer from November 2002 to August 2012. Before joining our Company, Ms. Zhu worked in Henan Finance and Securities Company (河南財政證券公司) as the chief accounting officer, deputy manager and manager of planning and finance department, the general accountant and the general manager of the planning and finance department from November 1993 to November 2002. Ms. Zhu is currently a member of the Financial Accounting and Risk Control Committee of the SAC.

Ms. Zhu obtained a bachelor degree of economics majoring in public finance from Henan University of Economics and Law (formerly known as Henan Institute of Finance) (河南財經政法大學，前稱河南財經學院) (located in Zhengzhou city, the PRC) in November 1991. Thereafter she obtained an Executive MBA degree from Fudan University in June 2011. The Henan government granted Ms. Zhu the qualification of senior accountant of professor class in March 2012.

**Mr. AN Xiaolang (安曉朗)**, aged 58, has been the chief audit officer and general manager of our internal audit department since May 2003. Before joining our Company, Mr. An used to work as the vice president of Anyang branch of the PBOC from December 1985 to November 1996. Mr. An worked as the director of securities repurchase and debt redemption office of Henan branch of the PBOC (中國人民銀行河南省分行證券回購清欠辦公室) from November 1996 to February 1998, and the leader of the supervision group of national securities repurchase and debt redemption (全國證券回購清欠辦公室督導組) from February 1998 to November 1998. Mr. An was the chief of the enterprises supervision section and listed companies supervision section of the accredited representative office of Zhengzhou city under the CSRC (中國證監會鄭州證券監管特派員辦事處機構監管處) from November 1998 to May 2003.



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. An graduated from a post-graduate course in economics from Henan University in July 1993. The PBOC granted the qualification of senior economist to Mr. An in April 2000.

**Mr. FANG Jianmin (房建民)**, aged 42, has been the vice President of our Company since November 2009. Mr. Fang joined our Company in May 2008 and served as assistant to the President from May 2008 to November 2009. Mr. Fang is the chairman of the board of ZDKY Venture Capital since February 2012, and a director of ZZKY Venture Capital since December 2012. Before joining our Company, Mr. Fang worked in Minsheng Securities Company Limited (formerly known as Huanghe Securities Company Limited) (民生證券有限責任公司，前稱黃河證券有限責任公司) and served consecutively as the project manager, senior manager and deputy general manager of its Zhengzhou investment bank department, the deputy general manager of its assets management department and risk management department, the director and general manager of its general investment bank department, and the general manager of its quality control department and business department III from April 1997 to May 2007. Mr. Fang then worked in Henan Construction and Investment as the director of securities department from May 2007 to August 2007, and worked in the investment banking department of Shanxi Securities Co., Ltd. (山西證券股份有限公司) from August 2007 to December 2007.

Mr. Fang obtained a bachelor degree in economics majoring in industrial economics from Henan University of Economics and Law in June 1992, and a master degree in business administration from Henan University in December 2010. The Henan Government granted the qualification of senior economist to Mr. Fang in March 2003. He was also granted with the qualification of certified internal auditor by the Certified Internal Auditor Association (國際註冊內部審計師協會) in November 2005, and the qualification of sponsor representative by SAC in October 2012.

**Mr. ZHAO Jizeng (趙繼增)**, aged 49, has been the vice President of our Company and the general manager of our Company's Shanghai branch office since November 2009. Mr. Zhao joined our Company since our incorporation in November 2002, and served consecutively as the deputy general manager of the brokerage department, general manager of the asset management department, and assistant to President and general manager of the securities investment department from November 2002 to November 2009. Before joining our Company, Mr. Zhao worked in the research institution of Henan Securities as a researcher, the vice principal and principal consecutively from August 1993 to November 2002.

Mr. Zhao graduated from Anyang Normal University (安陽師範學院) (located in Anyang city, the PRC) in July 1984, majoring in politics and history and obtained a master degree in economics from Henan University in July 1993, majoring in politics and economics.

**Mr. XU Haijun (徐海軍)**, aged 43, has been the chief compliance officer and the general manager of the legal and compliance department of our Company since December 2008. Mr. Xu joined our Company since our incorporation in November 2002, and served consecutively as the general manager of the business department of Shangqiu branch, general manager of the business department of Sanmenxia branch, general manager of the IT department and the general manager of the legal and compliance department. Before joining our Company, Mr. Xu worked in Henan Securities as the manager of the IT department of Shanghai branch, deputy manager of Zhengzhou Huayuan Road branch, manager of Zijinshan business department, assistant to general manager and general manager of the Shenzhen branch consecutively from July 1993 to December 2000.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Xu obtained a bachelor degree of engineering majoring in computer and applications from Zhengzhou University (鄭州大學) (located in Zhengzhou city, the PRC) in June 1993. The Ministry of Electronics Industry of the PRC granted the qualification of computer applications senior programmer to Mr. Xu in October 1996. He also passed the Exam on Compliance Management Capability of Securities Companies (證券公司合規管理人員勝任能力考試) in October 2008.

**Ms. XIE Xuezhu (謝雪竹)**, aged 44, has been the secretary to the Board and director of general office of our Company since September 2009. She has been the secretary to the Board and director of general office of the Board since March 2013. Ms. Xie joined our Company since our incorporation in November 2002 and served consecutively as the director of the supervision office, deputy manager of the brokerage department and general manager of the business department of our Zhengzhou Shangcheng Road branch and the director of the general office from November 2002 to September 2009. Ms. Xie is a supervisor of Ashmore-CCSC Fund Management since January 2013, director of ZDKY Venture Capital since April 2013, and the chairman of the supervisory committee of ZZKY Venture Capital since November 2013. Before joining our Company, Ms. Xie worked in Henan Finance and Securities Company from July 1993 to November 2002, where she served consecutively as a trader and the secretary of the general manager.

Ms. Xie obtained a bachelor degree of economics majoring in public finance and specialized management of state-owned assets from Jiangxi University of Finance (formerly known as Jiangxi Finance College) (江西財經大學，前稱江西財經學院) (located in Nanchang city, the PRC) in July 1993, and a master degree of economics majoring in political economics from Renmin University of China in January 2007. The Office of Personnel of Henan Province (河南省人事廳) granted the qualification of corporate legal consultant to Ms. Xie in October 2000.

**Mr. ZHAO Lifeng (趙麗峰)**, aged 42, has been the vice President of our Company since August 2012. Mr. Zhao joined our Company in May 2004 and served consecutively as the deputy general manager and general manager of the investment banking department, employee representative Supervisor and assistant to the President and general manager of the investment banking department of our Company from May 2004 to August 2012. Before he joined our Company, from July 1997 to April 2004 Mr. Zhao used to work in the Citic Securities Company Limited and served consecutively as senior manager of investment banking department (Nanjing), assistant to general manager and project leader of investment banking department.

Mr. Zhao obtained a bachelor degree of economics majoring in investment economy management from Wuhan University (武漢大學) (located in Wuhan city, the PRC) in July 1993 a master degree of economics majoring in finance from Peking University in January 2003, and a master degree of master of business administration (international) from the University of Hong Kong in December 2006. The SAC granted the professional qualification of sponsor representative to Mr. Zhao in April 2004.

Save as disclosed above, no Directors, Supervisors or members of the senior management held any directorship positions in any other listed companies within the three years immediately preceding the date of this prospectus, nor has he or she held any other positions with our Group.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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There is no other information relating to the relationship of any of our Directors, Supervisors or members of the senior management with other Directors, Supervisors and members of the senior management that should be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A to the Hong Kong Listing Rules. None of our Directors, Supervisors or members of the senior management is interested in any business which competes or is likely to compete with the business of our Company.

### JOINT COMPANY SECRETARIES

**Ms. XIE Xuezhu**, serves as one of the joint company secretaries of our Company. See “– Senior Management” for further details.

**Ms. KWONG Yin Ping, Yvonne (鄺燕萍)**, aged 58, one of the joint company secretaries of our Company. Ms. Kwong obtained a higher diploma in company secretaryship and administration from Hong Kong Polytechnic (香港理工學院) in November 1979 and a bachelor of arts in accountancy from the Hong Kong Polytechnic University (香港理工大學) in November 1997. She works as vice president in a professional corporate services company which is engaged in providing secretarial and compliance services for listed companies. She is also a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators of the United Kingdom. She has extensive experience in providing company secretarial services for numerous private and listed companies.

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 Rule 3.28 and Rule 8.17 of the Hong Kong Listing Rules with regards to the necessary qualifications of our company secretary. For further details of this waiver application, please see “Waivers from Strict Compliance with the Hong Kong Listing Rules-Appointment of Joint Company Secretaries” in this prospectus.

### BOARD COMMITTEES

The Board delegates certain responsibilities to various committees. In accordance with the relevant PRC laws, regulations, the Articles of Association and the Hong Kong Listing Rules, we have established our development and strategy committee, remuneration and nomination committee, audit committee, and risk control committee.

#### Development and Strategy Committee

We have established the development and strategy committee, and adopted an updated terms of reference on December 1, 2013. The responsibilities of our development and strategy committee include but not limited to:

- researching and making recommendations on our significant mid- and long-term development strategies and plans;
- researching and making recommendations on our significant capital expenditures, investment and financing projects; and

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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- researching and making recommendations on significant matters relating to our development.

The development and strategy committee comprises Mr. JIAN Mingjun, Mr. ZHOU Xiaoquan, Mr. LI Xingjia, Mr. ZHANG Qiang and Mr. WANG Jinian. Mr. JIAN Mingjun is the chairperson of the development and strategy committee.

### Remuneration and Nomination Committee

We have established the remuneration and nomination committee and adopted an updated terms of reference on December 1, 2013, in compliance with Rule 3.25 of the Hong Kong Listing Rules and paragraph A5 and B.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The responsibilities of our remuneration and nomination committee include but not limited to:

- assessing and making recommendations to the Board on our remuneration structure and policies for all Directors, Supervisors and senior management;
- determining, with delegated responsibility from the Board, or making recommendations to the Board on the remuneration packages of executive Directors and senior management members;
- making recommendations to the Board on the remuneration of the non-executive Directors;
- reviewing and approving compensation arrangements in relation to dismissal or removal of our Directors for misconduct;
- monitoring and approving the implementation of the remuneration policies of our Directors, Supervisors and senior management;
- considering salaries paid by comparable companies, time commitment, responsibilities and employment conditions of other positions of our Group;
- ensuring that no Director or any of his or her associates is involved in deciding his or her own remuneration;
- reviewing the selection standard and process, structure, size and composition of the Board and senior management annually and making recommendations on any proposed changes to the Board and senior management to complement our Company's corporate strategy;
- identifying suitable candidates of Directors and senior management, selecting or recommending to the Board on the selection of individuals or providing advice to the Board in respect thereof;

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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- assessing the independence of the independent non-executive Directors; and
- making recommendations to the Board on the appointment, re-appointment and the succession planning for Directors and senior management.

The remuneration and nomination committee comprises Mr. YUAN Dejun, Mr. ZHOU Xiaoquan, and Mr. ZHU Shanli. Mr. ZHU Shanli and Mr. YUAN Dejun are independent non-executive Directors. Mr. YUAN Dejun is the chairperson of the remuneration and nomination committee.

### **Audit Committee**

We have established our audit committee and adopted an updated terms of reference on December 1, 2013 in compliance with Rule 3.21 of the Hong Kong Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The responsibilities of our audit committee are to supervise our internal control, financial information disclosure and financial reporting matters, which include but not limited to:

- to supervise the disclosure of our accounting information and other major issues, to review critical accounting policies and their implementation;
- proposing the appointment, re-appointment or removal of our external auditors;
- reviewing and monitoring their independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewing our financial information;
- overseeing our financial reporting system, internal control procedures and risk management system; and
- enhancing the communication between our internal auditors and external auditors.

The audit committee comprises Mr. YUEN Chi Wai, Ms. SHI Dan and Mr. LI Xingjia. Mr. YUEN Chi Wai and Ms. SHI Dan are independent non-executive Directors. Mr. YUEN Chi Wai is the chairperson of the audit committee.

### **Risk Control Committee**

We have established the risk control committee and adopted an updated terms of reference on December 1, 2013. The responsibilities of our risk control committee include but not limited to:

- supervising and monitoring the risk and compliance management system of our Company, including the policies, structure and specific responsibilities;

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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- reviewing and monitoring the training and continuous professional development of the Directors and senior management;
- monitoring our compliance with the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and our disclosure in the Corporate Governance Report;
- monitoring the effective implementation of our risk and compliance management and evaluating the performance of our senior management who are responsible for the risk and compliance management.

The risk control committee comprises Mr. JIAN Mingjun, Mr. WANG Jinian and Mr. ZHU Shanli. Mr. ZHU Shanli are independent non-executive Directors. Mr. JIAN Mingjun is the chairperson of the risk control committee.

### **EMOLUMENT OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT**

We offer our executive Directors, employee representative Supervisors and senior management members, who are also employees of our Company, emolument in the form of salaries, allowances, remuneration, pension, discretionary bonus and other welfares. Our non-executive Directors, independent non-executive Directors and shareholders' representative Supervisors receive emolument based on their responsibilities (including being members or chairman of Board committees). We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals. We intend to establish a scientific and effective mechanism that links employee remuneration to our performance in order to motivate our employees and to promote the continued growth of our Company. We adopted the "Bonus Allocation Policy," pursuant to which the allocation of bonus to each business unit is linked to indicators such as the completion status of the "Annual Operation and Management Target and Responsibilities" and the annual appraisal result of the relevant business unit, the allocation of bonus to each employee is based on indicators such as the annual appraisal result, the seniority level and bonus allocation level of the relevant employee. Please also see "Business – Competitive Strengths – Outstanding management team and market-oriented human resources management" of this prospectus.

For the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of emolument paid by our Company to our Directors and Supervisors were approximately RMB6.1 million, RMB7.9 million and RMB6.4 million, respectively. For the three years ended December 31, 2011, 2012, and 2013, the aggregate amount of emolument paid by our Company to our senior management were approximately RMB6.2 million, RMB11.7 million and RMB8.8 million. It is estimated that under the arrangements currently in force, the aggregate emolument payable to the Directors and Supervisors for the year ending December 31, 2014, will be approximately RMB4.2 million and RMB2.7 million, respectively.



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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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For the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of emolument paid by our Company to the five highest paid individuals were approximately RMB7.6 million, RMB12.1 million and RMB14.3 million, respectively. During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office in connection with the management of the affairs of any subsidiary of our Company during the Track Record Period.

During the Track Record Period, none of our Directors waived any emoluments. Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors, Supervisors or the five highest paid individuals during the Track Record Period.

### **COMPLIANCE ADVISOR**

We have appointed Guotai Junan Capital Limited as our compliance advisor pursuant to Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance advisor will advise us in the following circumstances:

- (a) before publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might constitute a notifiable or connected transaction under the Hong Kong Listing Rules, is contemplated, including share issues and securities repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Hong Kong Listing Rules.

Pursuant to Rule 19A.06 of the Hong Kong Listing Rules, Guotai Junan Capital Limited will, in a timely manner, inform us of any amendment or supplement to the Hong Kong Listing Rules that are announced by the Hong Kong Stock Exchange. Guotai Junan Capital Limited will also inform us of any amendment or supplement to applicable laws and guidelines.

The term of the appointment will commence on the Listing Date and end 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 Listing.



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## SHARE CAPITAL

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As of the date of this prospectus, the registered share capital of our Company is RMB2,033,515,700, divided into 2,033,515,700 Domestic Shares with a nominal value of RMB1.00 each.

The share capital structure of our Company immediately after the Global Offering will be as follows:

<u>Shareholder</u>	<u>Class</u>	<u>Number of shares</u>	<u>Approximate percentage of registered capital</u>
Henan Investment Group . . . . .	Domestic Shares	870,963,022	33.096%
Other Shareholders <sup>(1)</sup> . . . . .	Domestic Shares	1,102,742,678	41.904%
NSSF . . . . .	H Shares	59,810,000	2.273%
H Shares issued pursuant to the Global Offering . . . . .	H Shares	598,100,000	22.727%
<b>Total</b> . . . . .		<u>2,631,615,700</u>	<u>100%</u>

(1) Other Shareholders comprise of a total of 15 Shareholders including: Bohai Fund Management (on behalf of Bohai Fund), Anyang Iron & Steel Group, Pingmei Shenma Energy, Anyang Economic Development, Jiangsu SOHO, Xuchang Superlift, Guangzhou Liby, Shenhua Group, Henan Jinlong, Jiaozuo Economic and Technology Development, Shandong Huanqiu, Jiangsu Huiyou, Shenzhen Rising, FreeTrade Science & Technology and Hebi Construction and Investment.

(2) Immediately after the Global Offering, our total share capital shall comprise of 1,973,705,700 Domestic Shares and 657,910,000 H Shares, which amount to 75% and 25% of our total share capital, respectively.

### OVER-ALLOTMENT OPTION

Pursuant to article 25 of the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) of the CSRC, the aggregate of direct holdings and/or indirect control in the equity interest of a listed PRC-incorporated securities firm by all foreign investors shall not exceed 25% of its total issued share capital. In order not to contravene the above rule, no over-allotment option will be granted by our Company in connection with the Global Offering.

### OUR SHARES AND RANKING

Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in HK dollars between, qualified domestic institutional investors, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between, qualified foreign institutional investors, legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan). All dividends in respect of H Shares are to be declared in Renminbi and paid by the Company in HK dollars whereas all dividends in respect of Domestic Shares are to be declared and paid by the Company in Renminbi.

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## SHARE CAPITAL

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All of the existing Domestic Shares are held by sixteen existing Shareholders. Shares which were issued by the Company before the Global Offering may not be transferred within a year from the date of the listing of Shares of the Company on the Hong Kong Stock Exchange. Upon the approval of the relevant regulatory authorities of the PRC and Hong Kong, the Domestic Shares may be converted into H Shares.

Save as described above and in relation to the dispatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents circumstances under which general meeting and class meeting are required, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, the Domestic Shares and H Shares will rank *pari passu* with each other in all aspects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to restrictions imposed by PRC laws from time to time.

### TRANSFER OF ISSUED SHARES BEFORE GLOBAL OFFERING

In accordance with the Company Law, shares which have been in issue before we publicly issue any shares may not be transferred within one year from the date of the Listing. However, the H Shares to be transferred by the state-owned Shareholders to the NSSF in accordance with relevant PRC regulations regarding transfer of state-owned shares are not subject to such statutory restrictions (see “– Transfer of state-owned Shares” below).

### TRANSFER OF STATE-OWNED SHARES

In accordance with the Provisional Measures on Reducing State-owned Shares to Raise Social Security Fund (Guo Fa [2001] No. 22) (《減持國有股籌集社會保障資金管理暫行辦法》) (國發[2001]22號) issued by the State Council, our nine state-owned Shareholders are required to transfer to NSSF, in aggregate, such number of Domestic Shares equivalent to 10.0% of the number of the Offer Shares to be issued by us under the Global Offering (being 598,100,000 Shares), or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both.

On December 25, 2013, SASAC approved all our nine state-owned Shareholders to transfer the 59,810,000 Domestic Shares to NSSF. Pursuant to a letter issued by NSSF on March 3, 2014, NSSF instructed us to transfer the state-owned Shares held by the state-owned Shareholders to NSSF pursuant to relevant PRC laws and regulations. The conversion of those Domestic Shares into H Shares was approved by the CSRC on April 23, 2014. Our Company will not receive any proceeds from the transfer of state-owned Shares by the state-owned Shareholders to NSSF.

We have been advised by our PRC legal advisors, Beijing Junzhi Law Offices, that the conversion of the Domestic Shares has been approved by the relevant PRC authorities and legal and valid under the relevant PRC laws.

### CONVERSION OF OUR SHARES INTO H SHARES

#### Conversion of Unlisted Shares

Upon the completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares. Without our A Share offering, all of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. According to the stipulations by the State Council's securities regulatory authority, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes (but without the necessity of Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "Arrangement"). In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to unlisted Shares. Without our A Share offering, all of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Hong Kong Stock Exchange. The conversion of listed Shares such as A Shares after the completion of our A Share offering is not covered under the Arrangement.

If any of our unlisted Shares are to be converted and to be traded as H Shares on the Hong Kong Stock Exchange, such conversion will be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Hong Kong Stock Exchange is required for the listing of such converted shares on the Hong Kong Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion and transfer.

#### Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register

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## SHARE CAPITAL

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maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging 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 certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange in compliance with the Hong Kong Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders currently proposes to convert any of the unlisted Shares held by it into H Shares, except for the unlisted Shares to be converted and transferred by the state-owned Shareholders to the NSSF in connection with the Global Offering in accordance with relevant PRC regulations regarding the transfer of state-owned shares.

### **THE PROPOSED A SHARE OFFERING**

Our A Share offering was approved by our Shareholders' meeting on August 30, 2012 and its application was submitted to and acknowledged receipt by the CSRC in September 2012. Since October 2012, the CSRC has suspended its review of all A share offering applications in China, which suspension was lifted in January 2014. As of March 16, 2014, there were 703 companies that were wait-listed on their A Share offering applications, among which 171 companies were applying for A share listing on the Shanghai Stock Exchange. Of these 171 companies, we ranked 86th. According to the historical review timetable of the CSRC, we estimate that our A share offering application may be reviewed by the CSRC after June 2015. To accommodate our plan on the Listing, we submitted an application to the CSRC to suspend the review of our A share offering application on March 24, 2014 in accordance with the relevant regulatory requirements. Pursuant to the guiding principle of the CSRC released on May 30, 2014, the application made by all A share offering applicants, including those having applied for suspension, will be terminated unless they have complied with the CSRC's listing documents preview requirement by 30 June 2014. As advised by our PRC legal advisor, in order to prevent our A share listing application being terminated by the CSRC, we shall complete the pre-disclosure of our A share listing documents prior to the prescribed date. Upon the Listing, we shall make announcement to disclose any major progress on our A share application in accordance with the Hong Kong Listing Rules and other applicable laws and regulations. Our proposed A share offering will only resume after the completion of the Global Offering. We expect our proposed A share offering to be completed after June 2015, subject to the CSRC's approval and the then market conditions.

The Company will comply with the Hong Kong Listing Rules and will not issue A shares or additional securities within six months after the Listing of H Shares. In addition, our Company will not issue A Shares within the second six months after the Listing of H Shares, unless we and our Controlling Shareholder obtain a waiver from strict compliance with Rule 10.07 of the Hong Kong Listing Rules.

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## SHARE CAPITAL

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### **REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE**

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on any overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon its listing.

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## OUR CORNERSTONE INVESTORS

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### THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the below investors (the “Cornerstone Investors”, each a “Cornerstone Investor”), pursuant to which the Cornerstone Investors have agreed to purchase at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for an aggregate amount of US\$60 million (the “Cornerstone Placing”). Assuming an Offer Price of HK\$2.51 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 185,313,000, representing approximately 7.04% of the Shares in issue upon completion of the Global Offering. Assuming an Offer Price of HK\$2.83 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 164,359,000, representing approximately 6.25% of the Shares in issue upon completion of the Global Offering. Assuming an Offer Price of HK\$3.14 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 148,132,000, representing approximately 5.63% of the Shares in issue upon completion of the Global Offering.

To the best knowledge of the Company, each of the Cornerstone Investors is an Independent Third Party, independent of each other, not our connected person, and not an existing shareholder of the Company. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by the Company on or around June 24, 2014.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of the Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone investment agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of the Company (as defined under the Hong Kong Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus.

### Cornerstone Investors

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

#### 1. Mao Yuan Capital Limited

Mao Yuan Capital Limited (“Mao Yuan”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with US\$35 million at the Offer Price. Assuming an Offer Price of HK\$2.51 (being the low-end



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## OUR CORNERSTONE INVESTORS

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of the indicative Offer Price range stated in this prospectus), Mao Yuan will subscribe for approximately 108,099,000 H Shares, representing approximately 18.07% of the Offer Shares, and 4.11% of the Shares in issue upon completion of the Global Offering. Assuming an Offer Price of HK\$2.83 (being the mid-point of the indicative Offer Price range stated in this prospectus), Mao Yuan will subscribe for approximately 95,876,000 H Shares, representing approximately 16.03% of the Offer Shares, and 3.64% of the Shares in issue upon completion of the Global Offering. Assuming an Offer Price of HK\$3.14 (being the high-end of the indicative Offer Price range stated in this prospectus), Mao Yuan will subscribe for approximately 86,410,000 H Shares, representing approximately 14.45% of the Offer Shares, and 3.28% of the Shares in issue upon completion of the Global Offering.

Mao Yuan is a company incorporated in the British Virgin Islands, which is wholly owned and controlled by Mr. Cao Junsheng, a financial investor. Its principal activities include investment holdings. Mr. Cao has entered into the cornerstone investor agreement as the guarantor, pursuant to which he has agreed and undertook to (i) guarantee the full payment and the due performance of all other obligations by Mao Yuan under the cornerstone investor agreement; (ii) contribute sufficient investment to Mao Yuan to ensure its due performance thereunder; and (iii) indemnify the Company and/or the Joint Global Coordinators on demand, on an after tax basis, against all damages, losses, costs and expenses incurred by the Company and/or the Joint Global Coordinators arising from or in connection with any non-payment or default of any kind by Mao Yuan under the cornerstone investor agreement.

### **2. Sunny Empire Investment Limited**

Sunny Empire Investment Limited (“Sunny Empire”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with US\$25 million at the Offer Price. Assuming an Offer Price of HK\$2.51 (being the low-end of the indicative Offer Price range stated in this prospectus), Sunny Empire will subscribe for approximately 77,214,000 H Shares, representing approximately 12.91% of the Offer Shares, and 2.93% of the Shares in issue upon completion of the Global Offering. Assuming an Offer Price of HK\$2.83 (being the mid-point of the indicative Offer Price range stated in this prospectus), Sunny Empire will subscribe for approximately 68,483,000 H Shares, representing approximately 11.45% of the Offer Shares, and 2.60% of the Shares in issue upon completion of the Global Offering. Assuming an Offer Price of HK\$3.14 (being the high-end of the indicative Offer Price range stated in this prospectus), Sunny Empire will subscribe for approximately 61,722,000 H Shares, representing approximately 10.32% of the Offer Shares, and 2.35% of the Shares in issue upon completion of the Global Offering.

Sunny Empire is a company incorporated in the British Virgin Islands, which is wholly owned and controlled by Mr. Zhang Junjie, a financial investor. Its principal activities include investment holdings. Mr. Zhang has entered into the cornerstone investor agreement as the guarantor, pursuant to which he has agreed and undertook to (i) guarantee the full payment and the due performance of all other obligations by Sunny Empire under the cornerstone investor agreement; (ii) contribute sufficient investment to Sunny Empire to ensure its due performance thereunder; and (iii) indemnify the Company and/or the Joint Global Coordinators on demand,



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## OUR CORNERSTONE INVESTORS

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on an after tax basis, against all damages, losses, costs and expenses incurred by the Company and/or the Joint Global Coordinators arising from or in connection with any non-payment or default of any kind by Sunny Empire under the cornerstone investor agreement.

To finance the subscription of Offer Shares by Sunny Empire, Sunny Empire has obtained a loan facility from DBS Bank Ltd., Hong Kong Branch, an affiliate of DBS Asia Capital Limited, one of the Underwriters and the Joint Global Coordinators, for an amount equal to the Hong Kong dollar equivalent of US\$25 million with a tenure of one year. The loan is on normal commercial terms after arm's length negotiations. None of the Offer Shares to be subscribed for by Sunny Empire will be charged to the lender as security for such loan.

### **Conditions Precedent**

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent: (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such agreements; and (ii) the Listing Committee of the Hong Kong Stock Exchange having granted the Listing of, and permission to deal in, the H Shares and that such approval or permission has not been revoked.

### **Restrictions on the Cornerstone Investors' Investment**

Each of the Cornerstone Investors has agreed that, among other things, without the prior written consent of the Company and the Joint Global Coordinators, it will not, and will procure that its subsidiary(ies) will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the relevant cornerstone investment agreements) any of the Offer Shares subscribed for by it pursuant to the relevant cornerstone investment agreement or any interest in any company or entity holding any Offer Shares, including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the forgoing securities, nor will it agree or contract to, or publicly announce any intentions to enter into any such transactions described above.

Each Cornerstone Investor may transfer the H Shares so subscribed in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as transfer to a wholly owned subsidiary (as defined in the relevant cornerstone investment agreement) of such Cornerstone Investor, provided that such wholly owned subsidiary undertakes in writing, and such Cornerstone Investor undertakes in writing to procure, that such wholly owned subsidiary agrees to be subject to the restrictions on disposals imposed on the Cornerstone Investor.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

To the best knowledge of our Directors, the following person(s) will, immediately after the completion of the Global Offering, have an interest or short position in the Shares or underlying shares which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10.0% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of the Company:

Shareholder	Number and types of Shares held as of the date of this prospectus	Approximate percentage of shareholding in the total share capital of the Company as of the date of this prospectus	Number of Shares held after the Global Offering	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering <sup>(1)</sup>	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering <sup>(2)</sup>
Henan Investment Group (河南投資集團) . . . . .	911,957,800 Domestic Shares	44.846%	870,963,022 Domestic Shares	Beneficial owner	44.128%	33.096%
Bohai Fund (渤海基金) . . . . .	608,000,000 Domestic Shares	29.899%	608,000,000 Domestic Shares	Beneficial owner	30.805%	23.104%
Bohai Fund Management (渤海基金管理) <sup>(3)</sup> . . . . .	608,000,000 Domestic Shares	29.899%	608,000,000 Domestic Shares	Investment manager	30.805%	23.104%
Anyang Iron & Steel Group . . . . .	196,704,200 Domestic Shares	9.673%	187,861,855 Domestic Shares	Beneficial owner	9.518%	7.139%

*Notes:*

- (1) The calculation is based on the percentage of shareholding in Domestic Shares (excluding 59,810,000 Shares to be converted from Domestic Shares, transferred to and then held by NSSF) of the Company after the Global Offering.
- (2) The calculation is based on the total number of 2,631,615,700 Shares in issue immediately after the Global Offering.
- (3) Bohai Fund Management holds the Shares of our Company on behalf of Bohai Fund. See “History and Corporate Structure” in this prospectus for further details.

Save that (i) Bohai Fund Management is the fund manager of Bohai Fund which holds 29.899% of equity interest in our Company on behalf of Bohai Fund; and (ii) Bohai Fund Management holds 1.316% equity interest in Bohai Fund, there is no other relationship among the above substantial Shareholders of the Company.

For persons who are directly and/or indirectly interested in 10.0% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of any other members of the Company, see the sub-section headed “Disclosure of Interests” in Appendix VI of this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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Save as disclosed herein, our Directors do not know any other person(s) who will, immediately after the Global Offering, have an interest or short position in the Shares or underlying shares which are required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10.0% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

We are not aware of any arrangement which would reasonably be expected to result in a change of control of our Company.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### Overview

As of the Latest Practicable Date, our Controlling Shareholder, Henan Investment Group, held approximately 44.846% of our issued share capital. Immediately following the completion of the Global Offering, Henan Investment Group will hold approximately 33.096% of our issued share capital, and therefore, Henan Investment Group will remain as our Controlling Shareholder.

### Background of our Controlling Shareholder

Our Controlling Shareholder, Henan Investment Group, is a wholly state-owned company established under the Company Law with a registered capital of RMB12 billion. Henan government authorizes Henan DRC and Henan SASAC to perform its shareholder's duties and supervisory duties, respectively. Henan Investment Group is an investment and financing entity of the provincial government, established under the approval of Henan government for the purposes of promoting economic growth in Henan amid the reforms of the investment and financing systems in China.

### Business Delineation

#### *Principal business of our Group*

As a leading securities firm in Henan, our principal business lines include: brokerage, investment banking, investment management and proprietary trading businesses. For further details of our principal business, see "Business" in this prospectus.

#### *Principal business of our Controlling Shareholder*

Henan Investment Group conducts a wide range of business based primarily in Henan, and its business scope includes: investment management, investment in construction projects, industrial raw materials and machinery required for construction projects, sale of raw materials and property leasing.

As of the Latest Practicable Date, Henan Investment Group holds majority equity interests in the following listed companies: (i) 83.34% of the total share capital of the Henan Yuneng Holdings Co., Ltd. (河南豫能控股股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 001896) which mainly engages in electricity generation; (ii) 65.35% of the total share capital of Henan Tongli Cement Co., Ltd. (河南同力水泥股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000885) which mainly engages in production and sale of cement and related products; (iii) 59.00% of the total share capital of Henan Ancai Hi-Tech Co., Ltd. (河南安彩高科股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600207) which mainly engages in manufacturing and sale of photovoltaic glass and glass bulbs, and pipeline transportation of natural gas; and (iv) 10.48% of the total share capital of China Aviation Optical-Electrical Technology Co., Ltd. (中航光电科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002179) which mainly engages in research, development and manufacturing of optical electrical and fluid connectors.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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The principal finance-related business of Henan Investment Group mainly includes acquiring controlling or minority interests in financial institutions in various sectors, such as securities, trust, insurance, banking and funds, and we are the only securities firm in which Henan Investment Group holds an equity interest. Henan Investment Group has not obtained the specific qualification and/or license from the CSRC to carry out businesses relating to securities firms, such as brokerage, investment banking, asset management, fund management, proprietary trading, innovative business or other regulated businesses. See “Regulatory Environment – Industry Entry Requirements – Industry Entry Requirements for Securities Companies.” Since the 1990s, direct investment has thrived in China and various investment companies have undertaken such business. Henan Investment Group commenced its direct investment business in 2000. Since 2007, securities firms have been permitted to conduct direct investment business and we commenced such business in 2012. See “Regulatory Environment – Industry Entry Requirements – Market Entry Requirements for Direct Investment Company.” We are of the view that, except for the direct investment business, the principal finance-related business of Henan Investment Group does not compete with our principal business.

As of the Latest Practicable Date, Henan Investment Group also has certain subsidiaries or associates conducting finance-related business which we believe is not in competition with our principal business:

- Henan Investment Group Guarantee Co., Ltd. (“**Henan Investment Group Guarantee**”), a limited liability company incorporated in Henan with a registered capital of RMB1 billion, in which Henan Investment Group holds a 100.0% equity interest;
- Zhongfu Payment Service Co., Ltd. (“**Zhongfu Payment Service**”), a limited liability company incorporated in Henan, with a registered capital of RMB200 million, in which Henan Investment Group holds a 100.0% equity interest;
- Henan Investment Group Asset Management Co., Ltd. (“**Henan Investment Group Asset**”), a limited liability company incorporated in Henan, with a registered capital of RMB150 million, in which Henan Investment Group holds a 100.0% equity interest;
- Zhongyuan Trust Co., Ltd. (“**Zhongyuan Trust**”), a limited liability company incorporated in Henan, with a registered capital of RMB1.5 billion, in which Henan Investment Group holds a 48.42% equity interest; and
- Kaifeng City Commercial Bank Co., Ltd. (“**Kaifeng Commercial Bank**”), a commercial bank incorporated in Henan with a registered capital of RMB726 million, in which Henan Investment Group holds a 27.89% equity interest.

Henan Investment Group Guarantee mainly engages in the provision of credit guarantees and its business scope does not include any of our principal business. As Henan Investment Group Guarantee has not obtained any licenses required for conducting our principal business, we believe there is no competition between our principal business and that of Henan Investment Group Guarantee.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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Zhongfu Payment Service mainly engages in the provision of payment services as a non-financial institution approved by the PBOC, and its business scope does not overlap with any of our principal business. As Zhongfu Payment Service has not obtained any license required for conducting our principal business, we believe there is no competition between our principal business and that of Zhongfu Payment Service.

Henan Investment Group Asset mainly engages in the asset management business, but its regulatory environment and business model are different from ours. As a non-financial institution approved by the PBOC, the asset management business of Henan Investment Group Asset mainly relates to the management of distressed assets and non-performing loans. Our asset management business mainly provides collective asset management schemes and targeted asset management schemes. Henan Investment Group Asset does not have the required business licenses for the asset management business we conduct. Therefore, we believe there is no competition between our principal business and that of Henan Investment Group Asset.

Pursuant to the Securities Law, Commercial Banks Law of the PRC (《中華人民共和國商業銀行法》), Trust Law of the PRC (《中華人民共和國信托法》) and other applicable financial regulations, in China, securities companies shall not also manage and operate other commercial banking and/or trust businesses, separately and vice versa. As a result, our Company and Zhongyuan Trust and Kaifeng Commercial Bank are regulated and supervised by different regulatory bodies and operating separately. Zhongyuan Trust and Kaifeng Commercial Bank have not obtained any required qualifications to conduct our principal business. Therefore, we believe there is no competition between our business and those of Zhongyuan Trust or Kaifeng Commercial Bank.

### *Direct Investment Business of our Controlling Shareholder*

As of the Latest Practicable Date, the direct investment companies (the companies which engage in, or may engage in, equity investments with its own and/or raised funds for investment returns, hereinafter referred to as “**Excluded Business Companies**”) in which Henan Investment Group holds 10% or more equity interests include:

- Beijing Xin’an Caifu Venture Investment Co., Ltd. (“**Beijing Xin’an Caifu Venture Investment**”), a limited liability company incorporated in Beijing with a registered capital of RMB200 million, in which Henan Investment Group holds 98.0% equity interest, primarily providing venture capital and related services to start-up companies;
- Henan Venture Capital Co., Ltd. (“**Henan Venture Capital**”), a joint stock company incorporated in Henan, with a registered capital of RMB105 million in which Henan Investment Group holds 61.91% equity interest, primarily operating in venture capital investments in hi-tech and technological innovation enterprises;
- Henan Everbright Financial Holding Industrial Investment Fund (Limited Partnership) (“**Henan Everbright Financial Fund**”), a limited partnership established in Henan with a registered capital of RMB502 million, in which Henan Investment Group holds approximately 49.516% equity interest, primarily operating in non-securities equity investments;

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- Everbright Financial Holding (Tianjin) Industrial Investment Fund Management Co., Ltd. (“**Everbright Financial Holding (Tianjin)**”), a limited liability company incorporated in Tianjin with a registered capital of RMB10 million, in which Henan Investment Group holds 35.0% equity interest, primarily operating in direct investments and other financing and investment business;
- Henan Binghong Biological Hi-tech Venture Capital Investment Co., Ltd. (“**Binghong Venture Capital**”), a limited liability company incorporated in Henan with a registered capital of RMB250 million, in which Henan Investment Group holds 20.0% equity interest, primarily operating in venture capital investments; and
- Henan Huaqi Energy-Saving and Environment Protection Venture Capital Co., Ltd. (“**Huaqi Venture Capital**”), a limited liability company incorporated in Henan with a registered capital of RMB250 million in which Henan Investment Group holds 20.0% equity interest, primarily operating in venture capital investments.

The following table sets out the relevant financial information of the Excluded Business Companies prepared in accordance with PRC accounting standards:

<u>Name</u>	<u>As of December 31, 2013</u>		<u>Net profits for the year ended December 31,</u>		
	<u>Total assets</u>	<u>Net assets</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>RMB in millions</i>	<i>RMB in millions</i>	<i>RMB in millions</i>	<i>RMB in millions</i>	<i>RMB in millions</i>
Beijing Xin’an Caifu Venture Investment . . . . .	257.86	189.24	10.99	12.83	1.51
Henan Venture Capital . . . . .	167.75	164.42	16.07	47.14	3.62
Henan Everbright Financial Fund . . . . .	23.71	23.37	N/A	(6.42)	(0.21)
Everbright Financial Holding (Tianjin). . . . .	11.34	6.14	N/A	(0.01)	1.15
Binghong Venture Capital . . . . .	149.71	148.86	N/A	(0.78)	(0.36)
Huaqi Venture Capital . . . . .	78.07	78.07	N/A	N/A	3.07

Our wholly-owned subsidiary ZDKY Venture Capital and our indirect subsidiary ZZKY Venture Capital Fund make equity, debt or equity-linked debt investment in unlisted companies. We make direct equity investments and earn capital gains by exiting from these investments through share transfers or IPOs. We also make debt or equity-linked debt investments and earn interest income until maturity or capital gains from such investments. We may compete with the Excluded Business Companies when ZDKY Venture Capital or ZZKY Venture Capital Fund and the Excluded Business Companies intend to invest in the same target company which we both believe has potentials for capital gains or interest incomes.



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

The following table sets out the relevant financial information of ZDKY Venture Capital and ZZKY Venture Capital Fund during the Track Record Period:

	As of December 31, 2012		As of December 31, 2013		Revenue for the year ended December 31,		Net Profit for the year ended December 31,	
	Total assets	Net assets	Total assets	Net assets	2012	2013	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ZDKY Venture Capital . . . . .	204,764	203,876	208,367	204,597	26,981	8,073	3,876	1,057
ZZKY Venture Capital Fund . . . . .	10,000	9,992	9,970	9,951	-	886	(8)	(41)

As of the Latest Practicable Date, we have never competed with the Excluded Business Companies in any projects. Henan Investment Group holds less than half of the voting rights in the board meetings and shareholders' meetings of Henan Everbright Financial Fund and Everbright Financial Holding (Tianjin), however, the board meetings and shareholders' meetings of the foregoing two companies both require the exercise of 80% or more voting rights to pass any valid resolutions. The general managers and chief investment officers of these two companies are recommended by other shareholders. Binghong Venture Capital and Huaqi Venture Capital, two of the Excluded Business Companies, are both funded by the National Guidance Fund for Innovative Industries (國家新興產業創業引導基金) and the Finance Department of Henan. Henan Investment Group only holds equity interests and carries out management duties on behalf of the Finance Department of Henan. Both Henan Venture Capital and Binghong Venture Capital have their own investment restrictions, Henan Venture Capital mainly invests in hi-tech and technology industries, while Binghong Venture Capital mainly invests in bio-agricultural, bio-medical and bio-chemical industries. We may be in competition with Henan Venture Capital and Binghong Venture Capital only when the investment target of ZDKY Venture Capital or ZZKY Venture Capital Fund falls within the foregoing scopes. The business of Beijing Xin'an Caifu Venture Investment is limited to venture capital investment and other related financial services. It mainly engages in equity investment in hi-tech and technological innovation enterprises across China while we mainly engage in equity investment and debt investment with a focus in Henan. We have never competed with Beijing Xin'an Caifu Venture Investment in any projects as there are a tremendous amount of investment targets available in the market. Moreover, given that we have entered into the Non-competition Agreement with our Controlling Shareholder, we believe the chance of potential competition between us and the Excluded Business Companies is negligible. See "– Non-competition Agreement with our Controlling Shareholder" in this section.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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The interests held by Henan Investment Group in the foregoing Excluded Business Companies are state-owned equity interests. Pursuant to the Law of the PRC on the State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》), in order to transfer part or all of its equity interests in the Excluded Business Companies, Henan Investment Group must apply to the Henan government to obtain approvals for such transfer by way of public bidding. As a result, there is no guarantee that the Excluded Business Companies can be injected into our Group. In addition, Henan Investment Group holds the equity interests in Binghong Venture Capital and Huaqi Venture Capital, two of the Excluded Business Companies, on behalf of the Finance Department of Henan. Our direct investment business mainly is focused in Henan. We aim to vigorously expand our equity investment in enterprises listed or proposed to be listed on the NEEQ, regional equity market and the merger and acquisition market, and increase our investment proportion in debt investment to achieve the balanced development of our business in equity investment and debt investment. The business plans of the Excluded Business Companies are different from our development strategies to a certain extent. Henan Venture Capital mainly invests in hi-tech and technology industries, while Binghong Venture Capital mainly invests in bio-agricultural, bio-medical and bio-chemical industries. Beijing Xin'an Caifu Venture Investment invests across China with a focus in hi-tech and technological innovation enterprises. Huaqi Venture Capital primarily invests in energy-saving and environmental hi-tech enterprises. Both Everbright Financial Holding (Tianjin) and Henan Everbright Financial Fund target nationwide investment in the seven emerging industries of China (i.e. energy saving and environmental protection, the emerging information, biology, new energy, new energy vehicles, high-end equipment manufacturing and new materials). In view of the aforesaid, the business plans of the Excluded Business Companies are not in line with our development strategies. As such, Henan Investment Group currently cannot inject its equity interests in the Excluded Business Companies into our Group.

### **Non-competition Agreement with our Controlling Shareholder**

In order to avoid any potential competition between the Company and our Controlling Shareholder, we entered into a non-competition agreement with Henan Investment Group on March 10, 2014 (the “**Non-Competition Agreement**”), pursuant to which Henan Investment Group undertook that, except for completed or ongoing business transactions by the Excluded Business Companies, neither itself nor its controlled entities (as defined under the Non-Competition Agreement) will, on its own account, or in conjunction with any third parties in or outside the PRC, in whatever manner, directly or indirectly, engage or participate in, or assist to engage or participate in, any business which competes or may compete with our principal business. Pursuant to the Non-competition Agreement, our principal business includes: (i) securities and futures brokerage, margin financing and securities lending; (ii) equity underwriting and sponsorship, bond underwriting, securities-related financial advisory and recommendation services on the New OTC Board; (iii) securities proprietary trading; (iv) securities-related asset management; (v) securities-backed lending, securities repurchase, dealer-quoted bond repurchase; and (vi) direct investment business approved by relevant regulatory authorities.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### **Right of First Refusal**

Henan Investment Group also agreed that, subject to applicable laws, regulations and its obligations to third parties, it shall keep our Company informed of any business opportunities in relation to our principal business (the “**New Business Opportunity**”) discovered by itself or its controlled entities and give us the right of first refusal in the New Business Opportunity under the same conditions in accordance with the terms set out in the Non-Competition Agreement. In such case, Henan Investment Group shall immediately notify us in writing within ten business days and provide us with relevant information about the New Business Opportunity, and use its best efforts to provide such New Business Opportunity to us on fair and reasonable terms. We have the option to decide whether or not to pursue such New Business Opportunity and respond in writing within 30 days upon the receipt of such written notice. If we decide to pursue such opportunity, Henan Investment Group and its controlled entities must pass on the New Business Opportunity to us under the same terms and conditions. Henan Investment Group shall ensure its controlled entities comply with the above terms by exercising its shareholder’s right in such entities. In addition, Henan Investment Group will exercise its voting rights in the relevant board meetings and shareholders’ meetings and use its best efforts to procure its associated entities (as defined under the Non-Competition Agreement) to pass on to us any New Business Opportunity. Our Directors will, after taking into consideration the profitability, risks and business strategies of the New Business Opportunity, and whether such opportunity is in the best interest of our Group as a whole, determine if we shall pursue such opportunity. Any Directors who have interests in or are related to such opportunity shall abstain from the decision-making process accordingly.

If we do not respond to such written notice within the prescribed period, it would be deemed as our waiver of the priority to pursue such opportunity, and as a result, Henan Investment Group and its controlled entities are free to pursue such opportunity. In addition, for any New Business Opportunity relating to our principal business other than the direct investment business, we have the right to refrain Henan Investment Group and/or its controlled entities from pursuing such opportunity even if we do not proceed.

### **Pre-emptive Rights**

Henan Investment Group has further undertaken that, subject to the relevant PRC laws and regulations regarding pre-emptive rights, if it or any of its controlled entities intends to transfer, sell, lease, license or otherwise transfer or permit to use any of its equity interests in a company which it obtained due to our waiving of the relevant New Business Opportunity, it shall inform us of its intention by a written transfer notice and furnish to us the relevant information in advance. We shall comply with the principles and provisions of the Hong Kong Listing Rules and respond in writing if we intend to acquire the foregoing equity interests within 30 days upon the receipt of such written notice. Before receiving our written response, Henan Investment Group or its controlled entities shall ensure from informing any third parties of such intention. Henan Investment Group shall procure its controlled entities comply with the above terms by exercising its shareholder’s right in such entities. In addition, Henan Investment Group has undertaken to exercise its voting rights in the relevant board meetings and shareholders’ meetings of its associated companies and use its best efforts to procure their granting of the pre-emptive rights to us.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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Our Directors will, after taking into consideration the profitability, risks and business strategies of the New Business Opportunity, and whether such opportunity is in the best interest of our Group as a whole, determine if we shall exercise such pre-emptive rights. Any Directors who are related to such pre-emptive rights shall abstain from the decision-making process accordingly.

### **Further Undertakings by our Controlling Shareholder**

Henan Investment Group further undertook that:

- (i) upon request from our independent non-executive Directors, it shall provide all information necessary for their review on the compliance with and the implementation of the Non-Competition Agreement by Henan Investment Group and its controlled entities;
- (ii) we are allowed to disclose the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-Competition Agreement in our annual reports or announcements; and
- (iii) it shall provide a statement on compliance with the terms of the Non-Competition Agreement to us and our independent non-executive Directors annually for the relevant disclosure in our annual reports.

The foregoing undertaking does not apply to (i) the holdings, by Henan Investment Group or its controlled entities, of any non-convertible bonds, or equity and/or convertible bonds representing not greater than 5% of the equity interests in other listed companies who compete or are likely to compete with our principal business; (ii) the holdings, by Henan Investment Group or its controlled entities, of not greater than 5% of the equity interests in any other companies whose business compete or are likely to compete with our principal business as a result of debt restructuring; and (iii) any business acquired by Henan Investment Group or its controlled entities after we waived our right of first refusal in relation to the New Business Opportunity (as defined below).

### **Termination**

The Non-Competition Agreement will remain effective and in full force until the occurrence of the following events, whichever the earlier:

- (i) Henan Investment Group ceases to be the controlling shareholder of our Company; or
- (ii) we cease to be listed on any internationally recognized stock exchange (other than any suspension in trading of our Shares for any reason).

In view of (a) the fact that our Company has entered into the Non-Competition Agreement with Henan Investment Group, and (b) the above mechanisms for monitoring Henan Investment Group's compliance with the Non-Competition Agreement, each of our Directors (including the independent non-executive Directors) is of the view that we have taken appropriate and practicable steps to ensure the compliance by Henan Investment Group with its obligations under the Non-Competition Agreement.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### Measures to be Taken by the Company to Ensure the Compliance of Relevant Undertakings

We will also adopt the following corporate governance measures to ensure that the undertakings under the Non-Competition Agreement are observed:

- (i) our Company will provide written notices to our independent non-executive Directors in respect of the New Business Opportunity passed on to us by Henan Investment Group or the pre-emptive rights within ten days from the receipt of such notices;
- (ii) our independent non-executive Directors will report and conduct an annual review, and we will disclose in our annual reports or announcements, the findings, decisions and the basis of any decisions made by our independent non-executive Directors on the compliance by Henan Investment Group with and implementation of the Non-Competition Agreement, as well as the reason why any New Business Opportunities, if any, has not been taken up; and
- (iii) our Directors are of the view that our Directors have sufficient experience in assessing whether or not to pursue any New Business Opportunities or to exercise the pre-emptive rights. If our Directors consider that approvals from our independent Shareholders are required for such opportunity under the Hong Kong Listing Rules, they may appoint an independent financial advisor or other professionals, at our expense, to advise on the suitability of exercising our rights under the Non-Competition Agreement.

### Independence from the Controlling Shareholder

Having considered the following factors, we believe that following the Global Offering, we can conduct our business independently from Henan Investment Group and its associates.

#### *Operational independence*

We own or have the right to use all the operational facilities and technologies relating to our business and hold all relevant qualifications and permits. We currently conduct our principal business independently and we have the ability to formulate and implement operational decisions independently. We also communicate with and serve our clients independently. We have sufficient capital, facilities and employees to operate our business independently. Our employees are independent from, and none of them are remunerated by, Henan Investment Group and its associates.

We have our own organizational structure and departments with specific authorities independent from Henan Investment Group. We also maintain a comprehensive set of internal control procedures for promoting efficient business operation. With reference to relevant laws, regulations and rules, we develop sound corporate governance practice and have adopted our rules of procedure for general meeting, rules of procedure for board meeting, rules of procedure for supervisory committee meeting and connected transactions regulations.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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We have entered into certain continuing connected transactions in relation to provision of services to Henan Investment Group and/or its associates. The said services are not provided to Henan Investment Group and/or its associates on an exclusive basis and may be offered by Independent Third Parties on similar terms. See “Connected Transactions” of this prospectus for details.

In view of the aforesaid reasons, our Directors believe that we can operate independently from Henan Investment Group.

### *Financial Independence*

Our financial department is independent from Henan Investment Group and composed of independent financial staff. Its responsibilities include, among others, financial control, accounting, financial reporting, group credit, internal control, etc. None of our financial staff works for Henan Investment Group and/or its associates. We are capable of making financial decisions independently, and Henan Investment Group will not intervene how we decide to use our funds. We have established an independent audit system, a standardized financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with Henan Investment Group and/or its associates. We conduct our tax registration and pay taxes independently according to the PRC tax laws and regulations, rather than on a combined basis with Henan Investment Group or any of its associates.

We have never obtained loans, financial assistance or financing in any other forms from Henan Investment Group or its associates; and we also have not provided any securities, loans or any other forms of financial assistance to Henan Investment Group or its associates. Therefore, our Directors believe that our financial operation is independent from Henan Investment Group.

### *Management Independence*

The Board is comprised of nine Directors. Apart from Mr. Li Xingjia, who holds a position in Henan Investment Group, the other eight Directors do not hold any directorship or senior management positions in Henan Investment Group and/or its associates. Among these eight Directors, two are executive Directors, two are non-executive Directors and four are independent non-executive Directors.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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The following table sets forth the positions held by our Directors and Supervisors in Henan Investment Group and/or its associates:

<u>Name of Director/Supervisor</u>	<u>Position held in our Company</u>	<u>Position held in Henan Investment Group</u>
Mr. LI Xingjia . . . . .	Non-executive Director	Deputy General Manager of Henan Investment Group
Ms. WANG Rui . . . . .	Shareholder representative Supervisor	Director of the Audit Department of Henan Investment Group

Except for the above-listed individuals, none of the Directors, Supervisors and senior management of our Company hold any position in Henan Investment Group.

Mr. Li and Ms. Wang do not participate in our daily operations and management. Mr. Li only participates as a member of the Board in formulating our corporate and business strategies and the decision-making process of significant events. While Ms. Wang, as a Supervisor, is responsible for supervising the operational and financial activities of our Company. Save for the aforesaid, our remaining Directors are independent from Henan Investment Group and have relevant experience to ensure that the Board performs its functions effectively.

We believe our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from Henan Investment Group due to the following reasons:

- (a) the decision-making mechanism of the Board as specified in Articles of Association has set out relevant provisions to avoid conflicts of interest, including but not limited to: (i) if the relevant proposal causes conflicts of interest between our Group and Henan Investment Group, the Director(s) associated with Henan Investment Group should abstain from voting and should not be included in the quorum of the meeting of the Board; (ii) when connected transaction(s) are considered, independent non-executive Directors of the Company shall give their independent opinions to the Board on the relevant connected transaction(s) pursuant to the Hong Kong Listing Rules;
- (b) we have appointed four independent non-executive Directors (accounting for more than one-third of the Board) to balance the numbers of interested Director(s) and independent non-executive Directors for the protection of the interests of the Group and the Shareholders as a whole; and
- (c) our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of the Group and the Shareholders as a whole.

To conclude, the Directors believe that our management team is independent from Henan Investment Group.



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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with our consolidated financial statements included in “Appendix I – Accountant’s Report,” together with the accompanying notes, included elsewhere in this prospectus. The consolidated financial statements included in the Accountant’s Report have been prepared in accordance with IFRS.*

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

### OVERVIEW

We principally engage in the brokerage, investment banking, investment management and proprietary trading businesses. Our principal business lines include:

- **Brokerage:** We engage in the trading of stocks, funds and bonds on behalf of our clients, and provide margin financing and securities lending and wealth management services.
- **Investment banking:** We provide investment banking services, including equity financing, debt financing and financial advisory, to institutional clients.
- **Investment management:** Our investment management business includes asset management, direct investment and fund management.
- **Proprietary trading:** We engage in the trading of stocks, bonds and funds as well as derivatives for our own account with the objective of achieving investment gains.
- **Other innovative business:** We use the funds we own or raise to engage in other types of capital-based intermediary businesses, such as securities-backed lending and securities repurchase.

As of December 31, 2011, 2012 and 2013, we had total assets of RMB10,987.3 million, RMB11,203.5 million and RMB13,649.6 million, respectively; and we had total equity of RMB3,626.8 million, RMB3,838.7 million and RMB4,175.3 million, respectively. In 2011, 2012 and 2013, our total revenue and other income was RMB966.3 million, RMB1,218.5 million and RMB1,434.6 million, respectively, and our profit was RMB92.8 million, RMB183.2 million and RMB238.4 million, respectively.

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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENTS

Our total revenue and other income increased by 19.6% to RMB539.1 million in the four months ended April 30, 2014 compared to RMB450.6 million in the same period in 2013, due primarily to the increases in our segment revenue and other income from margin financing and securities lending, securities brokerage as well as headquarters and others principally as a result of (i) substantial growth of our capital-based intermediary businesses, such as margin financing and securities lending, securities-backed lending and securities repurchase; and (ii) our increased market shares and brokerage trading volume during the four months ended April 30, 2014. These increases were partially offset by (i) a decrease in our segment revenue and other income from proprietary trading due primarily to our reduced average investment amount and less favorable stock and bond markets in China; and (ii) a decrease in our segment revenue and other income from the investment management business due primarily to the RMB22.1 million of provisions we set aside for potential liabilities for our credit enhancement under our Yanhuang No. 1 collective asset management scheme during the four months ended April 30, 2014.

As of April 30, 2014, the balance of our margin loans and securities lent increased by 16.4% to RMB2,639.5 million from RMB2,266.8 million as of December 31, 2013. As of April 30, 2014, the aggregate balance of our securities-backed lending and securities repurchase increased by 89.1% to RMB617.8 million from RMB326.7 million as of December 31, 2013. Our securities brokerage trading volume increased by 25.5% to RMB208.4 billion in the four months ended April 30, 2014 from RMB166.0 billion in the same period in 2013. Our average brokerage commission fee rate decreased from 0.119% in the four months ended April 30, 2013 to 0.111% during the fourth quarter of 2013 and further decreased to 0.106% in the four months ended April 30, 2014. The market share of our brokerage business in China increased from 0.586% in the four months ended April 30, 2013 to 0.624% during the fourth quarter of 2013 and further increased to 0.639% in the four months ended April 30, 2014. Our average investment amount decreased in the four months ended April 30, 2014 because we allocated more capital for developing our capital-based intermediary businesses.

The financial information for the four months ended April 30, 2014 as mentioned above was extracted from the interim financial information of our Group for the four months ended April 30, 2014 which has been reviewed by our reporting accountant in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. Prospective investors should note that our four-month financial and business performance fluctuate during a financial year and are not indicators of our operating results for an interim period or a whole year.

On January 9, 2014, we issued the second tranche of short-term notes with a principal amount of RMB900.0 million in the national interbank bond market through a bidding process. This tranche of short-term notes has a term of 90 days and bears an interest rate of 6.65%, an issuer rating of AA and a bond rating of A-1. We fully repaid the second tranche on April 10, 2014. On April 4, 2014, we issued the third tranche of short-term notes with a principal amount of RMB800.0 million. The third tranche of short-term notes bears an interest rate of 5.0% and has the same maturity term and ratings as the previous two tranches. We used the proceeds from our short-term notes for replenishing our working capital and intend to issue additional tranches of short-term notes in 2014, subject to market conditions and our capital requirements.

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On April 25, 2014, we issued RMB1.5 billion of corporate bonds in China with an interest rate of 6.2% and a term of five years. Guaranteed by China Bond Insurance Co., Ltd, an Independent Third Party, our corporate bonds are rated AAA. We used the proceeds from our corporate bond issuance for replenishing our working capital. We believe that our corporate bonds can provide us with external funds on a longer term to support our business expansion, especially margin financing and securities lending business.

### **BASIS OF PRESENTATION**

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

The financial information incorporates our financial statements and financial statements of entities controlled by us. Control is achieved 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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by our Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from our equity therein.

### **FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

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

#### **Economic and Market Conditions**

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

- declines in economic growth, business activities or investor confidence;
- decreases in the availability of or increases in the cost of credit and capital;
- significant increases in inflation, interest rates, exchange rate volatility or commodity prices;

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- outbreaks of hostilities or other geopolitical instability; or
- natural disasters or pandemics; or a combination of these or other factors.

For example, in 2011, the PRC securities industry was materially and adversely affected by the tightening of monetary policies and high inflation in the PRC, and financial and political instability in the euro-zone economies, which have had a material and adverse effect on our financial condition and results of operations.

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

- Our brokerage business depends heavily on trading volumes. Unfavorable market conditions can materially and adversely affect investor sentiment and trading volumes, resulting in reduced brokerage commission and fee income.
- We have net long trading positions in equity and fixed income securities as part of our proprietary trading business. Because a substantial portion of these investing and trading positions are marked to market, declines in fair values directly impact our profit and capital position, unless we have effectively hedged our exposures to such declines. Although we use derivative instruments to hedge the exposure to declines in market value, only a portion of our portfolio is hedged by using such derivative instruments.
- Our investment banking business has been and may continue to be affected by market conditions. Unfavorable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate financing, resulting in significant declines in the size and number of financing and financial advisory transactions, which could have a material and adverse effect on the revenue and profitability of our investment banking business.

### Trading Volume

Commission and fee income on securities brokerage has been the largest component of our total revenue and other income. In 2011, 2012 and 2013, our commission and fee income on securities brokerage amounted to RMB704.6 million, RMB466.9 million and RMB661.1 million, representing 72.9%, 38.3% and 46.1% of our total revenue and other income, respectively.

Commission and fee income on securities brokerage is mainly driven by the volume of trades which we execute for our clients and the commission rates which we charge. Our brokerage trading volume to a large extent depends on the trading activities in the PRC securities markets, particularly stock markets. For example, due to the weak performance of the PRC stock market in 2012, the average daily trading volume in the PRC stock market decreased by 25.1% to RMB129.5 billion in 2012 compared to RMB172.8 billion in 2011. Accordingly, our securities brokerage trading volume declined by 27.0% to RMB389.8 billion in 2012 compared to RMB534.3 billion in 2011, which resulted in a 33.7% decrease in the commission and fee income on securities brokerage to RMB466.9 million in 2012 compared to RMB704.6 million in 2011.

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While we continue to diversify our business and increase revenue contribution from our other principal business lines, our securities brokerage business is expected to remain as our primary source of revenue in the foreseeable future. Any decline in or continued low level of trading volume in the PRC securities market could have a material and adverse effect on our business and results of operations.

### **Pricing**

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

Our brokerage commission and fee income accounted for a substantial portion of our total revenue and other income and was influenced by commission rates and trading volume. In 2011, 2012 and 2013, our average securities brokerage commission rate was 0.124%, 0.119% and 0.115%, respectively. Consistent with industry trends, intensified price competition in the securities brokerage business with other securities firms operating in Henan has resulted in reduced commission rates and may force us to charge lower rates to stay competitive going forward. See “Risk Factors – Risks Relating to Our Business and Industry – We generate a significant portion of our revenue from our securities brokerage business, and we cannot assure you that our brokerage commission and fee income can be sustained.” We will continue to monitor the pricing of our products and services in relation to our competitors and provide more value-added services to enhance our competitive position while maintaining our profitability.

### **Competition**

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

- For the securities brokerage business, we compete primarily with other securities firms with a business presence in Henan in terms of pricing, branch network coverage and the range of products and services offered. As of December 31, 2013, there were 52 securities firms with a business presence in Henan and intense price competition in recent years has led to lower commission rates for our securities brokerage business.
- For the investment banking business, we compete primarily with other PRC securities firms in terms of brand recognition, marketing and distribution capability, service quality, execution capability, financial strength and pricing.

As we are expanding across China, we also compete with other regional or national securities firms that operate in the same markets as us. In addition, with regulatory changes and other factors that contribute to the gradual deregulation of the PRC securities industry, more competitors are seeking to enter or expand in the market. In early 2014, a PRC securities firm launched online discount brokerage, offering investors lower commission rates than other conventional brokers. We expect more online discount brokerage firms to emerge in China and compete with traditional securities firms, including us.

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### **Business Lines and Product Mix**

Our principal business lines include brokerage, investment banking, investment management, proprietary trading as well as other innovative business. Our operating margins vary across different business lines as well as different products and services in the same business line. Our product mix and changes to such mix due to our business strategy, market conditions, customer demand and other factors may affect our revenue and profitability over time.

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

With a view to maximizing our revenue and profitability, we intend to regularly monitor and adjust our product mix across our different business lines and further expand our product offerings.

### **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 or fee structures.

The regulatory regime of the PRC securities industry has been evolving and the CSRC and other regulatory authorities are committed to the gradual deregulation of the PRC securities industry and broadening the scope of new products and services that securities firms can offer. For example, from 2008 to 2013, the CSRC launched several pilot programs, including direct investment, stock index futures, margin financing and securities lending, securities-backed lending and dealer-quoted bond repurchase products as well as “NEEQ” to expand the products and services that securities firms can offer. The CSRC has been encouraging securities firms to diversify their product and service offerings and issued specific guidelines on product and service innovation for securities firms. In addition, the CSRC introduced the reform plans for the A share IPO System in December 2013, reflecting a major step towards a registration-based IPO system. We believe the new products and services which the CSRC may approve in the future, and the potential launch of the “Regional OTC Board” in Henan will enable us to further expand and diversify our business and revenue streams as well as increase our profitability.

In addition, new legislation, changes in rules, or changes in the interpretation or enforcement of existing rules and regulations could affect our future operations and profitability. In April 2012, the CSRC lowered the risk-weighted capital reserve requirements for qualified



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securities firms based on certain criteria, including lowering the risk-weighted capital reserve requirements for proprietary trading, asset management and securities brokerage businesses to support the capital and leverage ratio management of securities firms and to increase their capital efficiency. In December 2012, the CSRC published new regulations which allow securities companies to issue subordinated debts to their shareholders or institutional investors through designated exchanges. This new regulation is intended to diversify the financing sources for replenishing net capital and reduce the financing costs of securities firms.

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

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

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 3 of the Accountant's Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis.

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

#### **Significant Accounting Policies**

##### ***Revenue recognition***

###### *Commission and fee income*

- Revenue from the securities and futures brokerage services is recognized on the date of the transaction;
- Underwriting and sponsor fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- Consultancy and advisory fee income is recognized when the relevant transactions have been arranged or the relevant services have been rendered;
- Fee revenue from asset management services is recognized according to the provisions of the asset management contract.



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### *Interest income*

Interest income is recognized by using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument but do not consider future credit losses.

### *Financial instruments*

#### *Recognition and de-recognition of financial instruments*

A financial asset or financial liability is recognized on the trade date, the date when we become a party to the contractual provisions of the instrument.

Financial assets are derecognized when one of the following conditions is met: (i) the contractual rights to receive cash flows from the investments have expired; (ii) when we have transferred substantially all risks and rewards of ownership; (iii) when we neither transfer nor retain substantially all risks or rewards of ownership of the financial asset but have not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognized in equity is recognized in profit or loss.

Financial liabilities are de-recognized when they are extinguished, that is, when the obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

#### *Classification and measurement*

We classify our financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification of financial assets depends on our intention and ability to hold the financial assets. Our management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized and subsequently measured at fair value on the

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statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss through net investment gains in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss.

Equity securities, funds and debt securities purchased for the purpose of selling in the near term are classified as financial assets held for trading. A financial asset held for trading is measured at fair value upon initial recognition with transaction expenses recorded in profit or loss for the current period. Cash dividends declared but not received or bond interests are recognized as receivables. Interest and dividends accrued during the holding period are recognized as investment gains.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including margin accounts receivable, accounts receivable, other receivables, financial assets held under resale agreements, refundable deposits and clearing settlement funds. Loans and receivables are recognized initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognized at fair value plus related transaction costs at the time of acquisition, and are subsequently measured at fair value. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized directly in other comprehensive income, and ultimately in the equity, until the financial assets are de-recognized at which time the cumulative gains or losses previously recognized in equity should be reclassified from equity to profit or loss. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognized in profit or loss.

### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss have two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee).

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Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial liabilities at fair value through profit or loss are initially recognized and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss through net investment gains/losses. The part of a fair value change due to our own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

### *Other financial liabilities*

Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method.

### *Determination of fair value*

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. We utilize the latest market price for both financial assets and financial liabilities where the latest price falls within the bid-ask spread. In circumstances where the latest market price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that substantially the same, and discounted cash flow analysis, among others. In applying valuation techniques to measure fair value, we maximize the use of observable market inputs and minimize the use of inputs that are specific to us.

If the quoted market price is not available and the fair value cannot be reliably measured, a financial asset is measured at cost.

### *Derivative financial instruments*

Our derivatives are stock index futures contracts. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, recent market

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transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### *Margin financing and securities lending services*

Margin financing and securities lending services refer to our lending of funds to our customers for purchase of securities, or our lending of securities to our customers for securities selling, for which the customers provide us with collateral. Margin financing and securities lending services are classified as margin financing and securities lending, respectively.

We recognize margin financing receivables as loans and receivables, and recognize interest income using effective interest rate method. Securities lent are not derecognized when the risk and rewards are not transferred, and interest income is recognized accordingly.

### *Resale and repurchase agreements*

Assets purchased under agreements to resell at a specified future date are not recognized on the statement of financial position at the time of acquisition. The corresponding cash paid is recognized on the statement of financial position as “financial assets held under resale agreement.” Conversely, assets sold under agreements to repurchase at a specified future date with a specific price are not derecognized. The corresponding cash received is recognized on the statement of financial position as “financial assets sold under resale agreements.”

The differences between the purchase and resale prices and sale and repurchase prices are recognized as interest income and interest expense respectively and are accrued over the term of the agreement using the effective interest rate method.

### *Impairment of financial assets*

Except for financial assets held for trading and financial assets at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

#### *(i) Financial assets carried at amortized cost*

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, we may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit or loss.

### *(ii) Available-for-sale financial assets*

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, we use the criteria referred to above.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. We assess the fair value of available-for-sale equity instruments individually at the statement of financial position date and determine that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost. When the fair value of an available-for-sale financial asset has declined for more than one year and we conclude this decline is prolonged based on professional judgement of the management, we will recognize impairment losses in profit or loss. For available-for-sale 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.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the consolidated income statement; increases in their fair value subsequent to impairment are recognized as other comprehensive income.

### ***Property and equipment***

Our property and equipment are buildings, motor vehicles, electronics and other equipment that are used for operating purposes and have useful lives of more than one year.

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Property and equipment shall be recognized only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of the replaced part is not recognized. All other subsequent expenditures are recognized in profit or loss during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of property and equipment from January 1, 2011 to August 31, 2011 are as follows:

	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Annual depreciation rates</u>
Buildings . . . . .	20~35 years	5%	2.71%~4.75%
Motor vehicles . . . . .	8 years	5%	11.88%
Electronics and other equipment . . . . .	3-15 years	5%	6.33%~31.67%

To enhance the management of property and equipment, we reassessed the estimated useful lives of property and equipment. Approved by our Board in 2011, we changed the estimated useful lives of electronics equipment from three years to five years, and the estimated useful lives of business buildings from thirty years to forty years. The new estimated useful lives are listed below, which are effective since September 1, 2011.

	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Annual depreciation rates</u>
Buildings . . . . .	20~40 years	5%	2.38%~4.75%
Motor vehicles . . . . .	8 years	5%	11.88%
Electronics and other equipment . . . . .	5-15 years <sup>(1)</sup>	5%	6.33%~19.00%

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(1) We have upgraded our IT related electronics and equipment in 2010 and improved the functions and capability of our IT system, which resulted in a longer useful life for electronics. Based on the publically available information on the accounting treatment of property and equipment adopted by the PRC securities industry, we believe our estimated useful lives of electronics and other equipment are fair and reasonable.

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed and adjusted as appropriate by us at the end of each reporting period.

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Property and equipment are de-recognized on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of their carrying amounts and related taxes and expenses is recognized in the profit or loss. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

### *Consolidation – Structured entity*

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Our management applies its judgment to determine whether we are acting as agent or principal in relation to the structured entities in which we act as an asset manager. In assessing whether we are acting as agent or principal, we consider factors, such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments). Also see “– Significant Accounting Estimates and Judgments – Determination of consolidation scope.”

### **Significant Accounting Estimates and Judgments**

#### *Impairment of available-for-sale financial assets*

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, we assess periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

#### *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.



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### *Fair value of financial instruments*

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model, etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Financial instruments measured at fair value at the end of each reporting period are categorised into three levels:

- Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level III – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

For financial instruments in Level III, prices are determined using valuation methodologies 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.

<b>Financial assets/ financial liabilities</b>	<b>Fair value hierarchy</b>	<b>Valuation technique(s) and key input(s)</b>	<b>Significant unobservable input(s)</b>	<b>Relationship of unobservable input(s) to fair value</b>
Available-for-sale financial assets – Wealth management products . . . . .	Level III	<ul style="list-style-type: none"> <li>• Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management’s best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>• Expected future cash flows</li> <li>• Expected recovery date</li> <li>• Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>• The higher the future cash flows, the higher the fair value</li> <li>• The earlier the maturity date, the higher the fair value</li> <li>• The lower the discount rate, the higher the fair value</li> </ul>
Available-for-sale financial assets – Trust schemes . . . . .	Level III	<ul style="list-style-type: none"> <li>• Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management’s best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>• Expected future cash flows</li> <li>• Expected recovery date</li> <li>• Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>• The higher the future cash flows, the higher the fair value</li> <li>• The earlier the maturity date, the higher the fair value</li> <li>• The lower the discount rate, the higher the fair value</li> </ul>

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## FINANCIAL INFORMATION

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Financial assets/ financial liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Financial liabilities designated at fair value through profit or loss . . . . .	Level III	<ul style="list-style-type: none"> <li>• Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management’s best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>• Expected future cash flows</li> <li>• Expected payment date</li> <li>• Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>• The higher the future cash flows, the higher the fair value</li> <li>• The earlier the payment date, the higher the fair value</li> <li>• The lower the discount rate, the higher the fair value</li> </ul>

### *Income taxes*

There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

### *Determination of consolidation scope*

All facts and circumstances must be taken into consideration in the assessment of whether we, as an investor, control the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors’ returns. We reassess whether we control such an investee when there are changes to one or more of the three elements of control listed above.

As of December 31, 2013, based on our judgment of the three elements of control, we have concluded that our asset management schemes: “Yanhuang No. 1,” “Yanhuang No. 2” and “Lianmeng No. 6” as well as “Alpha Phase I” offered by CSCC-Ashmore are structured entities controlled by us and should be included for consolidation. See note 3 in “Appendix I – Accountant’s Report.”

We are in the process of assessing the impact of these new standards and amendments on the Financial Information.

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## FINANCIAL INFORMATION

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### PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

#### Revenue and other income

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

#### *Commission and fee income*

Our commission and fee income mainly consists of the following:

- (i) commission and fee income on securities brokerage;
- (ii) commission and fee income on futures brokerage;
- (iii) underwriting and sponsors fees;
- (iv) financial advisory fees;
- (v) investment advisory fees; and
- (vi) asset management and fund management fees.

We generate commission and fee income on securities and futures brokerage by trading securities and futures on behalf of our customers.

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

We generate investment advisory fees in our brokerage business for providing wealth management services and in our asset management business for providing advisory services to our asset management clients.

We also generate management and performance fees in our asset management business by managing our customers' asset portfolios. We also generate management fees in our fund management business by managing funds.

#### *Interest income*

Our interest income includes: (i) bank interest income from our own deposits and deposits we hold on behalf of our customers; (ii) interest income from margin financing and securities lending; (iii) interest income from financial assets under resale agreements, including bond resale repurchase, securities-backed lending and securities repurchase transactions; and (iv) interest income from our direct investment business.

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## FINANCIAL INFORMATION

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### *Net investment gains*

Our net investment gains primarily include (i) net gains from, and fair value change of, our financial assets held for trading; (ii) net gains from our available-for-sale financial assets, and (iii) net gains from, and fair value change of derivatives.

Our net investment gains from financial assets held for trading consist mainly of (i) net 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 in our proprietary trading and asset management businesses.

Our net investment gains from available-for-sale financial assets consist mainly of (i) net gains or losses from disposal of financial assets; and (ii) dividends and interest income from available-for-sale financial assets in our proprietary trading, direct investment and asset management businesses.

Our net investment gains from derivatives, primarily stock index futures, consist of (i) net gains or losses 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 government grants, which we receive for supporting our business operations. Our other income and gains also include rental income and non-recurring income from disposal of assets.

### **Total expenses**

Our total expenses include mainly commission and fee expenses, interest expenses, staff costs, depreciation and amortization, and other operating expenses.

### *Commission and fee expenses*

Our commission and fee expenses consist primarily of (i) securities dealing expenses charged by the stock exchanges and other authorized institutions for using their transaction and settlement systems as well as commissions paid to our securities brokerage agents; and (ii) fees and expenses directly associated with our underwriting and sponsorship activities and financial advisory services, such as asset valuation fees, legal fees and consulting fees paid to third parties.

### *Interest expenses*

Our interest expenses primarily include (i) interest expenses on deposits we hold on behalf of our customers; (ii) interest expenses from bond repurchase transactions; (iii) interest expenses on financing from non-bank financial institutions, primarily China Securities Finance for conducting our margin refinancing activities; and (iv) interest expenses on short-term notes.

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

### *Staff costs*

Our staff costs primarily include salaries, bonus and allowances as well as other welfare benefits paid to our employees. Staff costs have been the largest component of our operating expenses, and accounted for 40.8%, 45.8% and 47.1% of our total expenses in 2011, 2012 and 2013, respectively.

### *Depreciation and amortization*

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

### *Other operating expenses*

Our other operating expenses primarily include business tax and surcharges, rental expenses, securities investor protection funds, business development expenses, administrative expenses and other miscellaneous expenses.

### **Operating profit**

Operating profit is calculated as our total revenue less total expenses.

### **Income tax expense**

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. During the Track Record Period, our Company and subsidiaries were each subject to an enterprise income tax rate of 25.0% and none of them was subject to any favorable income tax rate. Our effective income tax rate was 32.3%, 28.8% and 29.5% in 2011, 2012 and 2013, respectively. As we had certain expense items that were not tax-deductible, our effective income tax rate was higher than the statutory rate of 25% during the Track Record Period. As of the Latest Practicable Date and during the Track Record Period, we fulfilled all our tax obligations and did not have any unresolved tax disputes.

## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
<b>Revenue</b>			
– Commission and fee income . . . . .	822.0	737.2	953.3
– Interest income . . . . .	134.0	142.8	286.7
– Net investment (losses)/gains . . . . .	(62.2)	321.4	158.6
<b>Total revenue</b> . . . . .	<b>893.8</b>	<b>1,201.4</b>	<b>1,398.6</b>
Other income and gains . . . . .	72.5	17.1	36.0
<b>Total revenue and other income</b> . . . . .	<b>966.3</b>	<b>1,218.5</b>	<b>1,434.6</b>
Commission and fee expenses . . . . .	(146.7)	(131.4)	(113.2)
Interest expenses . . . . .	(42.6)	(67.4)	(127.4)
Staff costs . . . . .	(338.4)	(440.5)	(516.7)
Depreciation and amortization . . . . .	(66.9)	(57.8)	(67.1)
Other operating expenses . . . . .	(239.8)	(256.3)	(264.1)
Impairment reversal/(losses) . . . . .	5.1	(7.9)	(7.9)
<b>Total expenses</b> . . . . .	<b>(829.3)</b>	<b>(961.3)</b>	<b>(1,096.4)</b>
<b>Profit before income tax</b> . . . . .	<b>137.0</b>	<b>257.2</b>	<b>338.2</b>
Income tax expense . . . . .	(44.2)	(74.0)	(99.8)
<b>Profit for the year</b> . . . . .	<b>92.8</b>	<b>183.2</b>	<b>238.4</b>

The following discussion compares the major components of our operating results in 2011, 2012 and 2013.

#### Revenue and other income

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
<b>Revenue</b>			
Commission and fee income . . . . .	822.0	737.2	953.3
Interest income . . . . .	134.0	142.8	286.7
Net investment (losses)/gains . . . . .	(62.2)	321.4	158.6
<b>Total revenue</b> . . . . .	<b>893.8</b>	<b>1,201.4</b>	<b>1,398.6</b>
Other income and gains . . . . .	72.5	17.1	36.0
<b>Total revenue and other income</b> . . . . .	<b>966.3</b>	<b>1,218.5</b>	<b>1,434.6</b>

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### *Comparisons between 2013 and 2012*

Our revenue and other income increased by 17.7% to RMB1,434.6 million in 2013 compared to RMB1,218.5 million in 2012, due primarily to the increases in our commission and fee income and interest income, partially offset by a decrease in our net investment gains.

### *Comparisons between 2012 and 2011*

Our revenue and other income increased by 26.1% to RMB1,218.5 million in 2012 compared to RMB966.3 million in 2011, due primarily to our recognition of net investment gains of RMB321.4 million in 2012 compared to net investment losses of RMB62.2 million in 2011, partially offset by decreases in our commission and fee income and other income and gains.

### **Commission and fee income**

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Securities brokerage . . . . .	704.6	466.9	661.1
Futures brokerage . . . . .	27.3	38.9	52.9
Underwriting and sponsors . . . . .	47.7	123.5	153.0
Financial advisory . . . . .	26.8	70.6	12.0
Investment advisory . . . . .	9.7	29.9	62.5
Asset and fund management . . . . .	5.9	7.4	11.8
<b>Total</b> . . . . .	<b>822.0</b>	<b>737.2</b>	<b>953.3</b>

### *Comparisons between 2013 and 2012*

Our commission and fee income increased by 29.3% to RMB953.3 million in 2013 compared to RMB737.2 million in 2012, due primarily to the increases in our commission and fee income on securities brokerage and our underwriting and sponsors fees.

Our commission and fee income on securities brokerage increased by 41.6% to RMB661.1 million in 2013 compared to RMB466.9 million in 2012, due primarily to (i) the increased brokerage trading volume of stocks and funds resulting from more active stock trading in the PRC stock market and (ii) our increased offering of value-added services in 2013. Our brokerage trading volume of stocks and funds increased by 51.0% to RMB587.0 billion in 2013 compared to RMB388.8 billion in 2012. Our average securities brokerage commission rate decreased from 0.119% in 2012 to 0.115% in 2013. Our underwriting and sponsors fees increased by 23.9% to RMB153.0 million in 2013 compared to RMB123.5 million in 2012, due primarily to our increased underwritten amount in 2013, particularly debt financing. Total debt financing we underwrote increased by 71.4% to RMB8.4 billion in 2013 compared to RMB4.9 billion in 2012.

In addition, our commission and fee income on futures brokerage, investment advisory fees and asset and fund management fees also increased due to the growth of our futures brokerage, wealth management and asset management businesses in 2013.



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### *Comparisons between 2012 and 2011*

Our commission and fee income decreased by 10.3% to RMB737.2 million in 2012 compared to RMB822.0 million in 2011, due primarily to a decrease in our commission and fee income on securities brokerage, partially offset by the increase in our commission and fee income from our other businesses.

Our commission and fee income on securities brokerage decreased by 33.7% to RMB466.9 million in 2012 compared to RMB704.6 million in 2011, due primarily to our decreased trading volume of stocks and funds, resulting from the weak performance of the PRC stock market in 2012. Our brokerage trading volume of stocks and funds decreased by 26.7% to RMB388.8 billion in 2012 compared to RMB530.3 billion in 2011. In addition, our average securities brokerage commission rate decreased from 0.124% in 2011 to 0.119% in 2012 due to increased market competition.

The decrease in our commission and fee income on securities brokerage was partially offset by increases in our underwriting and sponsors fees, investment advisory fees, commission and fee income on futures brokerage as well as management fees which increased by 158.9%, 208.2%, 42.5% and 25.4%, respectively, in 2012 as a result of growth in our secondary offering and debt financing, wealth management, futures brokerage and asset management businesses.

### **Interest income**

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Interest income from bank deposits . . . . .	125.7	133.7	140.4
Interest income from financial assets held under resale agreements . . . . .	8.3	4.7	26.3
Interest income from margin financing and securities lending . . . . .	–	4.3	115.7
Others . . . . .	–	0.1	4.3
<b>Total</b> . . . . .	<b>134.0</b>	<b>142.8</b>	<b>286.7</b>

### *Comparisons between 2013 and 2012*

Our interest income increased by 100.8% to RMB286.7 million in 2013 compared to RMB142.8 million in 2012, due primarily to a substantial increase in our interest income from margin financing and securities lending. Our interest income from margin financing and securities lending increased significantly to RMB115.7 million in 2013 compared to RMB4.3 million in 2012, due primarily to the rapid growth of our margin loan balance in 2013 after we started our margin financing and securities lending business in July 2012. In addition, our interest income from financial assets held under resale agreements increased to RMB26.3 million in 2013 compared to RMB4.7 million in 2012 due primarily to our offering of securities-backed lending and securities repurchases and increased bond resale transactions in 2013.

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### *Comparisons between 2012 and 2011*

Our interest income increased by 6.6% to RMB142.8 million in 2012 compared to RMB134.0 million in 2011, due primarily to an increase in our interest income from bank deposits, which increased by 6.4% to RMB133.7 million in 2012 compared to RMB125.7 million in 2011. This increase was mainly attributable to the increased average balance of our own bank deposits.

### **Net investment gains**

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

	Year ended 31 December,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Realized gains from disposal of available-for-sale financial assets . . . . .	47.6	69.0	8.1
Dividends and interest income from available-for-sale financial assets . . . . .	2.9	2.7	7.6
Recycling of available-for-sale financial assets reserve upon consolidation of structured entities . . .	–	–	(7.4)
Realized gains/(losses) from disposal from financial assets held for trading . . . . .	(125.6)	31.6	19.2
Dividends and interest income from financial assets held for trading . . . . .	113.3	188.4	180.2
Net realized gains/(losses) from derivative financial instruments . . . . .	–	10.6	(11.7)
Unrealized fair value change of financial instruments at fair value through profit or loss			
– Financial assets held for trading . . . . .	(100.4)	28.9	(21.9)
– Derivative financial instruments . . . . .	–	(9.8)	10.8
– Financial liabilities designated at fair value through profit or loss . . . . .	–	–	(26.3)
<b>Total</b> . . . . .	<b>(62.2)</b>	<b>321.4</b>	<b>158.6</b>

### *Comparisons between 2013 and 2012*

Our net investment gains decreased by 50.7% to RMB158.6 million in 2013 compared to RMB321.4 million in 2012, due primarily to the combination of the following:

- a RMB73.3 million decrease in our net realized gains from disposals of available-for-sale financial assets and financial assets held for trading, which was mainly attributable to the decreased investment returns in our proprietary trading activities. Our average returns on bond and stock trading decreased in 2013 due to the weak performance of the bond and stock markets in China. Our average investment return on bond trading decreased to 8.4% in 2013 compared to 12.5% in 2012. Our average investment return on stock and fund trading decreased to 0.9% in 2013 compared to 14.5% in 2012. According to Wind Info, bond funds in China recorded an average return of 0.4% in 2013 and the CSI 300 Index decreased by 7.7% during 2013.

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- a RMB37.4 million loss in our unrealized fair value change of financial assets in 2013 compared to a RMB19.1 million profit in 2012, which was mainly attributable to (i) a RMB21.9 million unrealized loss in our financial assets held for trading, primarily bonds; and (ii) RMB26.3 million of accrued financial liabilities designated at fair value through profit or loss, relating primarily to our estimated financial obligations under Yanhuang No. 1 collective asset management scheme for compensating potential losses of certain investors based on our management's estimate. See "Risk Factors – Risks relating to our Business and Industry – Our asset management fees could decline if the investments we manage perform poorly or our clients withdraw assets we manage or if we lose clients."

### *Comparisons between 2012 and 2011*

While we recorded net investment losses of RMB62.2 million in 2011, we had net investment gains of RMB321.4 million in 2012.

In 2011, due to significant volatility in the PRC stock market and a 25.0% decrease in the CSI 300 Index, we had realized losses of RMB125.6 million from financial assets held for trading and unrealized losses of RMB100.4 million from changes in fair value in financial assets held for trading. These losses were partially offset by dividend income and interest income of RMB113.3 million from financial assets held for trading (primarily bonds) and investment gains of RMB47.6 million from the disposal of available-for-sale financial assets (primarily stocks). See "Business – Internal Control Measures – Proprietary Trading" for our internal control measures to manage the risks in our proprietary trading business.

In 2012, due to a more prudent asset allocation strategy in our proprietary trading business and the improved bond market in 2012, we had net investment income of RMB321.4 million reflecting the combination of the following:

- RMB188.4 million of gains from the dividend and interest income from financial assets held for trading, primarily bonds;
- RMB69.0 million of realized gains from disposal of available-for-sale financial assets, primarily stocks, due to the gradual recovery of the PRC stock market in 2012;
- RMB31.6 million of realized gains from disposal of financial assets held for trading, primarily bonds; and
- RMB19.1 million of unrealized gains from changes in the fair value of financial assets, primarily financial assets held for trading, mainly bonds.

### **Other income and gains**

#### *Comparisons between 2013 and 2012*

Our other income and gains increased by 110.5% to RMB36.0 million in 2013 compared to RMB17.1 million in 2012, due primarily to an increase in our government grants which consisted primarily of local government grants for our newly established fund management subsidiary in Shanghai.

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### *Comparisons between 2012 and 2011*

Our other income and gains decreased by 76.4% to RMB17.1 million in 2012 compared to RMB72.5 million in 2011 due primarily to a one-off disposal of idle properties amounting to RMB35.7 million in 2011.

### **Total expenses**

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Commission and fee expenses . . . . .	146.7	131.4	113.2
Interest expenses . . . . .	42.6	67.4	127.4
Staff costs . . . . .	338.4	440.5	516.7
Depreciation and amortization . . . . .	66.9	57.8	67.1
Other operating expenses . . . . .	239.8	256.3	264.1
Impairment (reversal)/losses . . . . .	(5.1)	7.9	7.9
<b>Total expenses . . . . .</b>	<b>829.3</b>	<b>961.3</b>	<b>1,096.4</b>

### *Comparisons between 2013 and 2012*

Our total expenses increased by 14.1% to RMB1,096.4 million in 2013 compared to RMB961.3 million in 2012, due primarily to increases in our staff costs, interest expenses and other operating expenses.

### *Comparisons between 2012 and 2011*

Our total expenses increased 15.9% to RMB961.3 million in 2012 compared to RMB829.3 million in 2011, due primarily to increases in our staff costs, interest expenses and other operating expenses.

### **Commission and fees expenses**

#### *Comparisons between 2013 and 2012*

Our commission and fees expenses decreased by 13.9% to RMB113.2 million in 2013 compared to RMB131.4 million in 2012, due primarily to our substantially reduced consultancy services fees associated with our investment banking business, partially offset by an increase in our brokerage commission and fees expenses.

#### *Comparisons between 2012 and 2011*

Our commission and fees expenses decreased by 10.4% to RMB131.4 million in 2012 compared to RMB146.7 million in 2011, due primarily to our decreased securities brokerage volume in 2012 and the resulting decrease in our brokerage commission and fees expenses.

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## FINANCIAL INFORMATION

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### Interest expenses

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Accounts payable to brokerage clients . . . . .	33.4	21.9	19.6
Financial assets sold under repurchase agreements . . .	9.2	45.5	72.0
Due to non-bank financial institutions . . . . .	–	–	25.8
Short-term notes . . . . .	–	–	10.0
<b>Total</b> . . . . .	<b>42.6</b>	<b>67.4</b>	<b>127.4</b>

#### *Comparisons between 2013 and 2012*

Our interest expenses increased by 89.0% to RMB127.4 million in 2013 compared to RMB67.4 million in 2012, due primarily to (i) our interest expenses of RMB25.8 million on financing from China Securities Finance for margin refinancing which we started in 2013; (ii) a RMB26.5 million increase in interest expenses on our financial assets sold under repurchase agreements which primarily resulted from our more active bond repurchase transactions; and (iii) our interest expense of RMB10.0 million on the first tranche of our short-terms notes issued in October 2013.

#### *Comparisons between 2012 and 2011*

Our interest expenses increased by 58.2% to RMB67.4 million in 2012 compared to RMB42.6 million in 2011, due primarily to a substantial increase in our interest expenses on financial assets sold under repurchase agreements which resulted from our more active bond repurchase transactions in 2012. This increase was partially offset by a decrease in our interest expenses on accounts payable to brokerage clients, mainly due to the weak performance of the PRC stock market in 2012 and the resulting decrease in the average balance of deposits we held on behalf of our brokerage customers.

### Staff costs

#### *Comparisons between 2013 and 2012*

Our staff costs increased by 17.3% to RMB516.7 million in 2013 compared to RMB440.5 million in 2012, due primarily to an increase in performance-based salaries and bonuses we paid to our employees in line with our increased revenue and profit in 2013.

#### *Comparisons between 2012 and 2011*

Our staff costs increased by 30.2% to RMB440.5 million in 2012 compared to RMB338.4 million in 2011, due primarily to an increase in salaries and bonuses which resulted from an increase in performance-based salaries and bonuses we paid to our employees in line with our increased revenue and profit in 2012.

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### **Depreciation and amortization**

#### *Comparisons between 2013 and 2012*

Our depreciation and amortization increased by 16.1% to RMB67.1 million in 2013 compared to RMB57.8 million in 2012, due to our increased purchases of software and IT equipment to support our business.

#### *Comparisons between 2012 and 2011*

Our depreciation and amortization decreased by 13.6% to RMB57.8 million in 2012 compared to RMB66.9 million in 2011 due primarily to accounting policy changes we made in September 2011 to adjust the useful lives of certain fixed assets, such as IT equipment, for meeting industry practice and the resulting decrease in our depreciation on fixed assets.

### **Other operating expenses**

#### *Comparisons between 2013 and 2012*

Our other operating expenses increased by 3.0% to RMB264.1 million in 2013 compared to RMB256.3 million in 2012, due primarily to increases in our business tax and surcharge and rental expenses as a result of our increased revenue and business expansion in 2013.

#### *Comparisons between 2012 and 2011*

Our other operating expenses increased by 6.9% to RMB256.3 million in 2012 compared to RMB239.8 million in 2011, due primarily to increases in our business tax and surcharge as a result of our increased revenue in 2012.

### **Profit before income tax**

#### *Comparisons between 2013 and 2012*

Our profit before income tax increased by 31.5% to RMB338.2 million in 2013 compared to RMB257.2 million in 2012.

#### *Comparisons between 2012 and 2011*

Our profit before income tax increased by 87.7% to RMB257.2 million in 2012 compared to RMB137.0 million in 2011.

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### Income tax expense

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions, except percentages)</i>		
Profit before income tax . . . . .	137.0	257.2	338.2
Income tax expenses . . . . .	(44.2)	(74.0)	(99.8)
Effective tax rate . . . . .	32.3%	28.8%	29.5%

### Comparisons between 2013 and 2012

Our income tax expense increased by 34.9% to RMB99.8 million in 2013 compared to RMB74.0 million in 2012, due primarily to the increase in our taxable income. Our effective tax rate increased to 29.5% in 2013 compared to 28.8% in 2012 due primarily to the increased amount of our non-deductible expenses for tax purposes in 2013.

### Comparisons between 2012 and 2011

Our income tax expense increased by 67.4% to RMB74.0 million in 2012 compared to RMB44.2 million in 2011, due primarily to the increase in our taxable income. Our effective tax rate decreased to 28.8% in 2012 compared to 32.3% in 2011 due primarily to the decreased amount of taxable income as a result of our increased non-taxable interest income on treasury bonds that we purchased.

### Net profit and net margin

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions, except percentages)</i>		
<b>Operating profit</b> <sup>(1)</sup> . . . . .	64.5	240.1	302.2
Operating margin <sup>(2)</sup> . . . . .	7.2%	20.0%	21.6%
Adjusted operating margin <sup>(3)</sup> . . . . .	9.2%	23.9%	26.1%
<b>Profit</b> . . . . .	92.8	183.2	238.4
Net margin <sup>(4)</sup> . . . . .	10.4%	15.2%	17.0%
Adjusted net margin <sup>(5)</sup> . . . . .	13.2%	18.3%	20.6%

(1) Operating profit = total revenue - total expenses

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



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- (3) Adjusted operating margin = (total revenue - total expenses) / (total revenue - commission and fee expenses - interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities companies present their operating revenues after deduction of commission and fee expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.
- (4) Net margin = Profit for the year / total revenue
- (5) Adjusted net margin = (profit for the year) / (total revenue - commission and fee expenses - interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.

### *Comparisons between 2013 and 2012*

Our profit increased by 30.1% to RMB238.4 million in 2013 compared to RMB183.2 million in 2012. This was due primarily to increases in our commission and fee income from brokerage business and our interest income from margin financing and securities lending business. Our operating margin and net margin increased in 2013 due to (i) the rapid growth of our margin financing and securities lending business with a high gross margin and (ii) our increased offering of value-added wealth management services in 2013 during our transition from a conventional securities broker to a value-added securities services provider.

### *Comparisons between 2012 and 2011*

Our profit increased by 97.4% to RMB183.2 million in 2012 compared to RMB92.8 million in 2011, due primarily to (i) the increase in our commission and fee income from our investment banking business which resulted from our increased underwriting of secondary offerings and debt financing, and (ii) a substantial improvement in our net investment gains in 2012 which resulted from a more prudent asset allocation strategy in our proprietary trading business and increased investment returns due to the gradual recovery of the PRC securities market. Our operating margin and net margin increased substantially in 2012 due primarily to (i) the significant improvement in our proprietary trading business with a high gross margin; (ii) the launch of margin financing and securities lending business in 2012; and (iii) the increased growth and profitability of our investment banking business.

## SEGMENT RESULTS

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

We have five principal business lines: (i) brokerage, (ii) investment banking, (iii) investment management, (iv) proprietary trading and (v) other innovative business. We report financial results for our business lines in seven business segments. We report financial results for our brokerage business in three segments: (i) securities brokerage, (ii) margin financing and securities lending and (iii) futures brokerage. We report financial results for our other innovative business in headquarters and others. The following discussions of our segment revenue and other income, segment expenses and segment results include our inter-segment revenue and inter-segment expenses.

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

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%
Securities brokerage . . . . .	706.1	73.1	494.1	40.5	678.9	47.3
Margin financing and securities lending . . . . .	–	–	6.1	0.5	155.8	10.9
Futures brokerage . . . . .	34.7	3.6	50.0	4.1	66.6	4.6
Investment banking . . . . .	74.5	7.7	172.8	14.2	164.9	11.5
Investment management . . . . .	17.3	1.7	39.3	3.2	17.5	1.2
Proprietary trading . . . . .	(53.2)	(5.5)	324.1	26.6	204.0	14.2
Headquarters and others . . . . .	188.0	19.5	133.5	11.0	148.7	10.4
Inter-segment eliminations . . . . .	(1.1)	(0.1)	(1.4)	(0.1)	(1.8)	(0.1)
<b>Total</b> . . . . .	<b>966.3</b>	<b>100.0</b>	<b>1,218.5</b>	<b>100.0</b>	<b>1,434.6</b>	<b>100.0</b>

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

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%
Securities brokerage . . . . .	(526.5)	63.4	(443.9)	46.2	(472.3)	43.1
Margin financing and securities lending . . . . .	–	–	(4.4)	0.5	(67.7)	6.2
Futures brokerage . . . . .	(31.1)	3.8	(41.4)	4.3	(53.8)	4.9
Investment banking . . . . .	(87.8)	10.6	(160.5)	16.7	(127.8)	11.7
Investment management . . . . .	(15.1)	1.8	(37.6)	3.9	(78.1)	7.1
Proprietary trading . . . . .	(17.4)	2.1	(102.4)	10.6	(120.5)	11.0
Headquarters and others . . . . .	(152.5)	18.4	(172.5)	17.9	(178.0)	16.2
Inter-segment eliminations . . . . .	1.1	(0.1)	1.4	(0.1)	1.8	(0.2)
<b>Total</b> . . . . .	<b>(829.3)</b>	<b>100.0</b>	<b>(961.3)</b>	<b>100.0</b>	<b>(1,096.4)</b>	<b>100.0</b>

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The following table sets forth our segment results (profit/(loss) before income tax) for the years indicated, which is calculated as segment revenue and other income (including inter-segment revenue) minus segment expenses (including inter-segment expenses).

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%	<i>(RMB in millions)</i>	%
Securities brokerage . . . . .	179.6	131.1	50.2	19.5	206.8	61.1
Margin financing and securities lending . . . . .	–	–	1.7	0.7	88.1	26.0
Futures brokerage . . . . .	3.6	2.6	8.6	3.4	12.8	3.8
Investment banking . . . . .	(13.3)	(9.7)	12.3	4.8	37.0	11.0
Investment management . . . . .	2.3	1.7	1.7	0.7	(60.6)	(17.9)
Proprietary trading . . . . .	(70.6)	(51.5)	221.7	86.2	83.4	24.7
Headquarters and others . . . . .	35.4	25.8	(39.0)	(15.3)	(29.3)	(8.7)
<b>Total</b> . . . . .	<u>137.0</u>	<u>100.0</u>	<u>257.2</u>	<u>100.0</u>	<u>338.2</u>	<u>100.0</u>

The following table sets forth our segment margins for the years indicated, which is calculated as the segment result (including inter-segment results) divided by the segment revenue and other income (including inter-segment revenue).

	Year ended December 31,		
	2011	2012	2013
	%	%	%
Securities brokerage . . . . .	25.4	10.1	30.5
Margin financing and securities lending . . . . .	–	27.9	56.5
Futures brokerage . . . . .	10.4	17.2	19.2
Investment banking . . . . .	(17.9)	7.1	22.4
Investment management . . . . .	13.3	4.3	(346.3)
Proprietary trading . . . . .	N/A	68.4	40.9
Headquarters and others . . . . .	18.8	(29.2)	(19.7)
<b>Total<sup>(1)</sup></b> . . . . .	<u>14.2</u>	<u>21.1</u>	<u>23.6</u>

(1) Compared to our operating margins, our segment margins have included the effect of other income and gains. Our operating margin was 7.2%, 20.0%, 21.6% in 2011, 2012 and 2013, respectively.

### **Securities Brokerage**

Segment revenue and other income from our securities brokerage business consist primarily of commission and fee income on securities brokerage. Segment expenses consist primarily of, commission and fee expenses, staff costs, rental expenses, depreciation and amortization and other general and administrative expenses, as well as business tax and surcharges.

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### *Comparison between 2013 and 2012*

Segment results of our securities brokerage business increased significantly to RMB206.8 million in 2013 compared to RMB50.2 million in 2012, due primarily to a 37.4% increase in our segment revenue and other income from RMB494.1 million in 2012 to RMB678.9 million in 2013 as a result of the increases in our commission and fee income on securities brokerage and investment advisory fees:

- The increase in our commission and fee income on securities brokerage business was due primarily to increased brokerage trading volume as a result of active trading activities in the PRC stock market in 2013, which was partially offset by a decrease in our average securities brokerage commission rate.
- The increase in our investment advisory fees primarily reflected our increased offering of value-added wealth management services in 2013 during our transition from a conventional securities broker to a value-added securities services provider.

Segment expenses increased by 6.4% to RMB472.3 million in 2013 compared to RMB443.9 million in 2012, due primarily to (i) an increase in our staff costs in line with our revenue growth and (ii) an increase in our brokerage commission and fee expenses in line with our increased brokerage trading volume in 2013.

As a result, the segment margin of our securities brokerage business increased to 30.5% in 2013 compared to 10.1% in 2012.

### *Comparison between 2012 and 2011*

Segment results of our securities brokerage business decreased by 72.1% to RMB50.2 million in 2012 compared to RMB179.6 million in 2011, primarily due to a 30.0% decrease in our segment revenue and other income from RMB706.1 million in 2011 to RMB494.1 million in 2012 as a result of a decrease in our commission and fee income on securities brokerage business. The decrease in our commission and fee income on securities brokerage business was primarily due to the decreased brokerage trading volume that resulted from the adverse conditions of the PRC securities markets in 2012. Our brokerage trading volume of stocks and funds decreased by 26.7% to RMB388.8 billion in 2012 compared to RMB530.3 billion in 2011. Our average securities brokerage commission rate decreased to 0.119% in 2012 compared to 0.124% in 2011 due primarily to increased market competition in the brokerage business.

Segment expenses decreased by 15.7% to RMB443.9 million in 2012 compared to RMB526.5 million in 2011, due primarily to (i) a decrease in salaries and bonuses to our employees as a result of adverse market conditions and a reduction in the number of our sales staff in 2012 and (ii) a decrease in our commission and fee expenses as a result of the decrease in our brokerage trading volume in 2012.

As a result, the segment margin of our securities brokerage business decreased to 10.1% in 2012 compared to 25.4% in 2011.

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### *Margin Financing and Securities Lending*

Segment revenue and other income from our margin financing and securities lending business consists primarily of interest incomes and commission and fee income from margin loans and securities lent. Segment expenses consist primarily of interest expenses paid primarily to China Securities Finance, staff costs, depreciation and amortization and other general and administrative expenses.

#### *Comparison between 2013 and 2012*

Segment results of our margin financing and securities lending business increased significantly to RMB88.1 million in 2013 compared to RMB1.7 million in 2012, due primarily to a significant increase in our segment revenue and other income from RMB6.1 million in 2012 to RMB155.8 million in 2013, partially offset by an increase in our segment expenses:

- The increase in the segment revenue and other income of our margin financing and securities lending business was due primarily to the significant increase in the interest income from this business segment, the balance of which increased from RMB210.8 million as of December 31, 2012 to RMB2,266.8 million as of December 31, 2013.
- The increase in the segment expenses was due primarily to our increased interest expenses and staff costs as a result of our expanded margin financing business and increased financing from China Securities Finance.

#### *Comparison between 2012 and 2011*

We started our margin financing and securities lending business in July 2012. Our segment revenue and other income and segment results in 2012 was RMB6.1 million and RMB1.7 million, respectively.

### *Futures Brokerage*

We conduct futures brokerage business through our subsidiary, Central China Futures. Segment revenue and other income from our futures brokerage business consists primarily of commission and fee income on futures brokerage (net of commission and fees paid to futures exchanges) and interest income from deposits we hold on behalf of our customers. Segment expenses consist primarily of staff costs, rental expenses, depreciation and amortization and other general and administrative expenses, as well as business tax and surcharges.

#### *Comparison between 2013 and 2012*

Segment results of our futures brokerage business increased by 48.8% to RMB12.8 million in 2013 compared to RMB8.6 million in 2012, due primarily to a 33.2% increase in segment revenue and other income from RMB50.0 million in 2012 to RMB66.6 million in 2013, partially offset by a 30.0% increase in segment expenses from RMB41.4 million in 2012 to RMB53.8 million in 2013.

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The increase in the segment revenue and other income of our futures brokerage business was due primarily to an increase in commission and fee income on futures brokerage. This is mainly attributable to a substantial increase in our futures brokerage trading volume as a result of the increased trading activities in the PRC futures market, partially offset by a decrease in our average commission rate for futures brokerage in 2013.

The increase in the segment expenses of our futures brokerage business was primarily as a result of increased staff costs and general and administrative expenses in line with the growth of our futures brokerage business.

As a result, the segment margin of our futures brokerage business increased to 19.2% in 2013 from 17.2% in 2012.

### *Comparison between 2012 and 2011*

Segment results of our futures brokerage business increased by 138.9% from RMB3.6 million in 2011 to RMB8.6 million in 2012, due primarily to a 44.1% increase in segment revenue and other income from RMB34.7 million in 2011 to RMB50.0 million in 2012, partially offset by a 33.1% increase in segment expenses from RMB31.1 million in 2011 to RMB41.4 million in 2012.

The increase in the segment revenue and other income on futures brokerage of our futures brokerage business was due primarily to the increases in our commission and fee income as well as interest income:

- Our commission and fee income on futures brokerage increased in 2012, due primarily to a substantial increase in our futures brokerage trading volume as a result of the increased trading activities in the PRC futures market, partially offset by a decrease in our average commission rate for futures brokerage in 2012.
- The increase in our interest income was primarily attributable to increases in client margin deposit balance and our own funds as a result of the growth of our futures brokerage business in 2012.

The increase in the segment expenses of our futures brokerage business was primarily as a result of increased staff costs and general and administrative expenses in line with the growth of our futures brokerage business.

As a result, the segment margin of our futures brokerage business increased to 17.2% in 2012 from 10.4% in 2011.

### ***Investment Banking***

Segment revenue and other income from our investment banking business consists primarily of underwriting and sponsors fees as well as financial advisory fees. Segment expenses consist primarily of salaries and bonus we pay to our employees and sponsor representatives, consultancy expenses and other operating expenses.

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### *Comparison between 2013 and 2012*

Segment results of our investment banking business increased significantly to RMB37.0 million in 2013 compared to RMB12.3 million in 2012, due primarily to a 20.4% decrease in the segment expenses from RMB160.5 million in 2012 to RMB127.8 million in 2013, offset by a 4.6% decrease in segment revenue and other income from RMB172.8 million in 2012 to RMB164.9 million in 2013:

- The decrease in the segment expenses was primarily due to a decrease in consultancy services fees associated with our investment banking business.
- The decrease in the segment revenue and other income was due primarily to a substantial decrease in our financial advisory fee in 2013, despite an increase in our underwriting and sponsors fee. Our underwriting and sponsors fee increased by 23.9% to RMB153.0 million in 2013 compared to RMB123.5 million in 2012, due primarily to the increased amount of debt financing underwritten by us, which increased to RMB8.4 billion in 2013 compared to RMB4.9 billion in 2012.

As a result, the segment margin of our investment banking business increased to 22.4% in 2013 compared to 7.1% in 2012.

### *Comparison between 2012 and 2011*

Segment results of our investment banking business was RMB12.3 million in 2012 compared to a loss of RMB13.3 million in 2011, due primarily to a 131.9% increase in segment revenue and other income, offset by a 82.8% increase in the segment expenses:

- The increase in the segment revenue and other income of our investment banking business was due primarily to the increases in our underwriting and sponsors fee and financial advisory fee in 2012. The total amount of equity financing underwritten by us increased to RMB9.4 billion in 2012 compared to RMB0.4 billion in 2011. The total amount of debt financing underwritten by us increased to RMB4.9 billion in 2012 compared to RMB0.8 billion in 2011.
- The increase in the segment expenses was primarily attributable to the increases in our staff costs and consultancy expenses as a result of the growth of our investment banking business in 2012.

As a result, the segment margin of our investment banking business was 7.1% in 2012. Our investment banking business was at its preliminary stage of development in 2011. We incurred a substantial amount of staff costs and administrative expenses for building our professional team while generated a relatively small amount of underwriting fees during the year. As a result, we recorded a loss in this segment in 2011.

### ***Investment Management***

Segment results in our asset management business consist primarily of management fees and investment consultancy fees and the segment expenses in this business consist primarily of staff costs, marketing and maintenance fees of products and operating expenses.



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We started our direct investment business in 2012. Segment revenue and other income from our direct investment business consists primarily of interest income from our equity-linked investments, investment returns and investment gains from wealth management products we purchased, while the segment expenses consist primarily of staff costs and depreciation and amortization.

We started our fund management business in 2013, and the segment revenue and other income from this business consist primarily of fund management fees and interest income from bank deposits, and the segment expenses consist primarily of staff costs, rental expenses and depreciation and amortization.

### *Comparison between 2013 and 2012*

Segment results of our investment management business were a loss of RMB60.6 million in 2013 compared to a profit of RMB1.7 million in 2012, due primarily to a 107.7% increase in the segment expenses of our investment management business from RMB37.6 million in 2012 to RMB78.1 million in 2013 and a 55.5% decrease in the segment revenue and other income from RMB39.3 million in 2012 to RMB17.5 million in 2013:

- The increase in segment expenses was mainly attributable to increased staff costs, operating costs and rental expenses associated with our newly-established fund management subsidiary, Ashmore-CCSC Fund Management, in 2013.
- The decrease in segment revenue and other income was mainly due to RMB25.3 million of accrued financial liabilities designated at fair value through profit or loss, relating primarily to our estimated financial obligations under the Yanhuang No. 1 collective asset management scheme for compensating potential losses of certain investors based on our management's estimate.

As a result, the segment margin of our investment management business was 4.3% in 2012. In 2013, we recorded a loss in this segment due primarily to the substantially increased expenses associated with the establishment of our fund management subsidiary and provisions we set aside under the Yanhuang No. 1 collective asset management scheme.

### *Comparison between 2012 and 2011*

Segment results of our investment management business decreased by 26.1% from RMB2.3 million in 2011 to RMB1.7 million in 2012, primarily due to a 149.0% increase in segment expenses from RMB15.1 million in 2011 to RMB37.6 million in 2012, partially offset by a 127.2% increase in the segment revenue and other income from RMB17.3 million in 2011 to RMB39.3 million in 2012:

- The increase in the segment expenses was mainly attributable to increased staff costs, operating costs and rental expenses associated with the establishment of our direct investment subsidiary, ZDKY Venture Capital, in 2012.

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- The increase in the segment revenue and other income was mainly attributable to an increase in our asset management fees as a result of the increase in the average balance of our AUM as we continue to grow our asset management business.

As a result, the segment margin of our investment management business decreased to 4.3% in 2012 from 13.3% in 2011.

### *Proprietary Trading*

Segment revenue and other income from our proprietary trading business consists primarily of net gains from financial assets at fair value through profit or loss (including financial assets held for trading and derivatives) and available-for-sale financial assets. The segment expenses consist primarily of business tax and surcharges, interest expenses, staff costs and rental expenses.

### *Comparison between 2013 and 2012*

Segment results of our proprietary trading business decreased significantly to RMB83.4 million in 2013 from RMB221.7 million in 2012, due primarily to a decrease in our segment revenue and other income, partially offset by an increase in our segment expenses:

- Our segment revenue and other income decreased by 37.1% from RMB324.1 million in 2012 to RMB204.0 million in 2013, due primarily to the decreased investment returns on our stock and bond trading due to the unfavorable PRC securities market in 2013. See “– Results of Operations – Net investment gains.”
- Our segment expenses increased by 17.7% to RMB120.5 million in 2013 compared to RMB102.4 million in 2012 due primarily to a RMB26.5 million increase in our interest expenses as a result of our expanded bond repurchase transactions in 2013 and RMB9.7 million of impairment losses recognized on certain available-for-sale financial securities based on our management’s estimate.

As a result, the segment margin of our proprietary trading business decreased to 40.9% in 2013 from 68.4% in 2012.

### *Comparison between 2012 and 2011*

Segment results of our proprietary trading business was RMB221.7 million in 2012 compared to a loss of RMB70.6 million in 2011, due primarily to a significant improvement in our net income gains, partially offset by a significant increase in our segment expenses:

- Our segment revenue and other income was RMB324.1 million in 2012 compared to a loss of RMB53.2 million in 2011, due primarily to significant increases in the investment returns on our stock and bond trading which resulted from a more prudent asset allocation strategy in our proprietary trading business and the improved bond market in 2012. The average return on our stock and fund trading was 14.5% in 2012 compared to a loss of 14.7% in 2011. The average return on our bond trading increased to 12.5% in 2012 compared to 4.2% in 2011. See “-Results of Operations – Net investment gains.”

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- Our segment expenses increased significantly to RMB102.4 million in 2012 compared to RMB17.4 million in 2011, due primarily to (i) the increase in our business taxes and surcharges as a result of the increase in our segment revenue; (ii) the increase in staff costs and other expenses as a result of increased performance-based salaries and bonuses in line with our revenue growth; and (iii) increased interest expenses from bond repurchase transactions.

As a result, the segment margin of our proprietary trading business was 68.4% in 2012. In 2011, due to significant volatility in the PRC stock market and a 25.0% decrease in the CSI 300 Index, we recorded a loss in this segment.

### *Headquarters and Others*

Revenue and other income from headquarters and others consists primarily of interest income from our own deposits and deposits we hold on behalf of our brokerage customers, interest income from securities-backed lending and securities repurchase, as well as other income and gains, such as government grants and rental income. Segment expenses mainly include administrative expenses related to the management functions of our headquarters, including staff costs, rental expenses, depreciation and amortization, interest expenses payable to brokerage customers and other operating expenses.

Given that the headquarters and others segment relates primarily to our management and administrative functions, our segment expenses will generally increase as we expand our business. In addition, as we increase our margin financing and securities lending business, our own bank deposits and associated interest income in this segment will generally decrease.

### *Comparison between 2013 and 2012*

Our segment loss for headquarters and others decreased to RMB29.3 million in 2013 compared to RMB39.0 million in 2012, due primarily to (i) a 11.4% increase in the segment revenue and other income; and (ii) a 3.2% increase in the segment expenses. Our segment revenue and other income increased to RMB148.7 million in 2013 compared to RMB133.5 million in 2012 due primarily to our increased interest income from bank deposits, securities-backed lending and securities repurchases.

### *Comparison between 2012 and 2011*

Our segment results were a loss of RMB39.0 million in 2012 compared to a profit of RMB35.4 million in 2011, due primarily to (i) a 29.0%, or RMB54.5 million, decrease in the segment revenue and other income and (ii) a 13.1%, or RMB20.0 million, increase in the segment expenses:

- The decrease in the segment revenue and other income was due primarily to a one-off disposal of idle properties in 2011, partially offset by an increase in the interest income on our own bank deposits.

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- The increase in the segment expenses was primarily due to the increase in our staff costs and depreciation and amortization.

### LIQUIDITY AND CAPITAL RESOURCES

We have in the past funded our working capital and other capital requirements primarily from cash flow from our business operations. Beginning in October 2013, we started to issue short-term notes to finance a portion of our working capital needs. However, we do not rely on bank borrowings and did not incur any bank borrowing during the Track Record Period.

We prepare our annual budget to forecast our cash flows and cash balances and to estimate our working capital needs for business expansion and other investments. We have also established stringent treasury management measures based on our Net Capital and other regulatory risk control indicators, which require stress testing on overall liquidity and other financial indicators before we make any capital allocation and investments.

As of April 30, 2014, we had aggregate cash and cash equivalents of RMB1,214.8 million, consisting primarily of our cash and bank balances as well as our own clearing settlement funds. At the same time, we had short-term notes payable of RMB800.0 million. See “ – Indebtedness.” To engage in the margin refinancing business, we began to obtain financing from China Securities Finance in 2013 and, as of April 30, 2014, the balance of our financing due to China Securities Finance amounted to RMB260.0 million, which we use solely for margin refinancing activities.

In addition to the net proceeds from the Global Offering, we intend to finance our future capital requirements through a combination of the following:

- cash flows from operating activities;
- short-term notes;
- corporate bonds; and
- borrowings from banks and other financial institutions, when necessary.

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.

We are of the opinion that, taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and bank balances, cash flows from operating activities, and proceeds from short-term notes and corporate bonds, our Directors believe that we have sufficient working capital for our present requirements, that is at least 12 months from the date of this prospectus.

After due consideration and discussions with our management and based on the above, the Sole Sponsor has no reason to believe that we are unable to meet the working capital requirements for the 12-month period from the date of this prospectus.

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

### Cash Flow

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

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Net cash (outflow)/inflow from operating activities . .	(1,117.4)	292.8	(971.8)
Net cash (outflow)/inflow from investing activities . .	(155.3)	292.2	(226.9)
Net cash (outflow)/inflow from financing activities . .	(447.4)	4.0	922.5
Net (decrease)/increase in cash and cash equivalents .	(1,720.1)	589.0	(276.2)
Cash and cash equivalents at beginning of the year . .	2,164.7	444.2	1,033.2
Effect of foreign exchange rate changes . . . . .	(0.4)	–	(1.5)
Cash and cash equivalents at end of the year . . . . .	444.2	1,033.2	755.5

### *Net cash flows from operating activities*

Our cash flows from operating activities consist primarily of cash generated or paid in relation to our commission-based brokerage business, investment banking business, margin financing and securities lending business, trading of financial assets held for trading, as well as resale and repurchase transactions. Net cash flow from operating activities reflects (i) profit before tax and adjusted for non-cash and non-operating items, such as depreciation and amortization and impairment allowance; (ii) the effects of movements in working capital, such as increase or decreases in margin accounts receivable, financial assets held for trading, and financial assets sold or held under resale or repurchase agreements; and (iii) other cash items such as income tax paid.

In 2013, we had net cash used in operating activities of RMB971.8 million because the cash outflows from movements in working capital exceeded our profit before tax of RMB338.2 million. The cash outflows from movements in our working capital were primarily due to (i) a RMB2,048.6 million increase in margin accounts receivable and a RMB140.2 million increase in refundable deposits primarily for margin refinancing, both of which reflected the rapid growth of our margin financing and securities lending business in 2013; and (ii) a RMB294.7 million increase in financial assets held under resale agreements due to our increased offering of securities-backed lending services in 2013. These cash outflows from movements in working capital were partially offset by (i) a RMB400.0 million increase in financing we received from China Securities Finance due to the commencement of our margin refinancing activities in 2013; and (ii) a RMB337.4 million increase in financial assets sold under repurchase agreements based on our investment strategies.

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## FINANCIAL INFORMATION

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In 2012, we had net cash from operating activities of RMB292.8 million due primarily to our cash inflows from movements in working capital. Our cash inflows from movements in working capital primarily reflected a RMB361.7 million decrease in financial assets held under resale agreements based on our liquidity management decisions. This was partially offset by (i) a RMB210.8 million increase in margin accounts receivable as a result of the commencement of our margin financing and securities lending business in July 2012; and (ii) a RMB145.0 million decrease in financial assets sold under repurchase agreements based on our investment strategies.

In 2011, we had net cash used in operating activities of RMB1,117.4 million because our cash outflows from movements in working capital exceeded our profit before tax of RMB137.0 million. The cash outflows from movements in our working capital were due primarily to (i) a RMB1,893.4 million increase in financial assets held for trading based on our investment strategy and market conditions; and (ii) a RMB860.0 million increase in financial assets held under resale agreements due to our increased liquidity management activities in 2011. These cash outflows from movements were partially offset by a RMB1,713.9 million increase in financial assets sold under repurchase agreements based on our investment strategies.

In 2011, we reported RMB1,893.4 million of net increase in our financial assets held for trading, primarily stocks and bonds, which reflected our investment strategies to increase long positions in our trading activities for increasing the efficiency of our surplus capital. Although we had profit before tax of RMB137.0 million in 2011, we recorded negative operating cash flows of RMB1,117.4 million during the same year. Following the commencement of our margin financing and securities lending business in July 2012, we had actively expanded the scale of our margin loans to brokerage customers in 2013 and recorded a net increase of RMB2,048.6 million in our margin accounts receivable in 2013. As a result, we reported negative operating cash flows of RMB971.8 million in 2013, although we had profit before tax of RMB338.2 million during the same year. We expect to use most of the net proceeds from the Global Offering to make margin loans and securities-backed lending to our customers, which will be treated as cash outflows in our operating activities, while the corresponding inflows of capital will be treated as cash from financing activities. In addition, we issued RMB1.5 billion of corporate bonds in April 2014 to mainly finance our capital-based intermediary businesses, which will also be treated as cash from financing activities. As we intend to actively expand our capital-based intermediary businesses, we may continue to report negative operating cash flows in 2014 and the near future after the Global Offering.

### *Net cash flows from investing activities*

Our cash outflows from investing activities consist primarily of our purchases of properties, equipment, intangible assets and available-for-sale financial assets. Our cash inflows from investing activities consist primarily of the proceeds from the disposal of property, equipment, intangible assets and available-for-sale financial assets as well as dividends and interests received from our financial assets.

In 2013, our net cash used in investing activities was RMB226.9 million, due primarily to RMB165.9 million used for the purchase of property, equipment, intangible assets and net cash of RMB69.6 million used for the purchase of available-for-sale financial assets.

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## FINANCIAL INFORMATION

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In 2012, our net cash from investing activities was RMB292.2 million, due primarily to RMB352.8 million from net cash received from disposal of available-for-sale financial assets based on our investment strategies, which was offset by RMB63.9 million of cash used for the purchase of property, equipment, intangible assets and the renovation of branches.

In 2011, our net cash used in investing activities was RMB155.3 million, due primarily to net cash of RMB179.6 million used for the purchase of available-for-sale financial assets based on our investment strategies.

### *Net cash flows from financing activities*

In 2013, our net cash from financing activities amounted to RMB922.5 million which we received from short-term notes and non-controlling shareholders.

In 2012, our net cash from financing activities amounted to RMB4.0 million which we received from non-controlling shareholders, primarily the minority shareholder of ZZKY Venture Capital.

In 2011, our net cash used in financing activities amounted to RMB447.4 million which we paid to our shareholders as dividends.

### **Assets and Liabilities**

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



## FINANCIAL INFORMATION

### *Current assets and liabilities*

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

	As of December 31,			As of
	2011	2012	2013	April 30, 2014
	<i>(RMB in millions)</i>			
<b>Current assets</b>				
Other current assets <sup>(1)</sup> . . . . .	183.3	198.9	256.1	427.6
Margin accounts receivable . . . . .	–	210.8	2,259.5	2,633.2
Available-for-sale financial assets . . . . .	373.2	82.8	391.1 <sup>(5)</sup>	307.4
Financial assets held under resale agreements <sup>(2)</sup> . . . . .	860.0	498.4	793.1	1,243.4
Financial assets held for trading . . . . .	3,358.0	3,399.5	3,439.0	3,743.5
Clearing settlement funds . . . . .	511.7	662.3	1,104.8	1,249.8
Cash held for brokerage clients . . . . .	4,593.0	4,369.8	3,962.7	4,063.9
Cash and bank balances . . . . .	433.1	997.7	570.4	889.4
<b>Total current assets</b> . . . . .	<b>10,312.3</b>	<b>10,420.2</b>	<b>12,776.7</b>	<b>14,558.2</b>
<b>Current liabilities</b>				
Other current liabilities <sup>(3)</sup> . . . . .	161.2	254.7	388.3	294.0
Financial liabilities designated at fair value through profit or loss . . . . .	–	–	707.4	655.2
Tax payable . . . . .	45.5	139.9	88.0	30.6
Due to other financial institutions . . . . .	–	–	400.0	260.0
Financial assets sold under repurchase agreements <sup>(4)</sup> . . . . .	1,903.9	1,758.9	2,096.3	2,395.5
Short-term notes payable . . . . .	–	–	800.0	800.0
Accounts payable to brokerage clients . . . . .	5,249.9	5,208.6	4,994.1	5,117.2
<b>Total current liabilities</b> . . . . .	<b>7,360.5</b>	<b>7,362.1</b>	<b>9,474.1</b>	<b>9,552.5</b>
<b>Net current assets</b> . . . . .	<b>2,951.8</b>	<b>3,058.1</b>	<b>3,302.6</b>	<b>5,005.7</b>

- (1) Other current assets mainly consist of interest receivables, accounts receivables and other receivables.
- (2) Financial assets held under resale agreement mainly consist of assets we hold under bond resale transactions, securities-backed lending and securities repurchase transactions.
- (3) Other current liabilities mainly consist of interest payable, salaries, bonus, allowances and benefits payable as well as accounts payable.
- (4) Financial assets sold under repurchase agreements mainly consist of debt securities we sold under bond repurchase transactions.
- (5) According to IFRS 10 effective from January 1, 2013, we have consolidated Lianmeng No.6 collective asset management scheme as a structured entity, under which we act as the asset manager, into our balance sheet since 2013. As of December 31, 2013, the fair value of a trust scheme held by our Lianmeng No. 6 collective asset management scheme, amounting to RMB257.3 million, was accounted as our available-for-sale financial assets. As of December 31, 2013, our available-for-sale financial assets also included RMB75.0 million of cash management products purchased by ZDKY Venture Capital using its surplus cash.

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Our current assets consist primarily of cash held for brokerage clients, financial assets held for trading, margin accounts receivable, cash and bank balances, clearing settlement funds (including customer clearing settlement funds), and financial assets held under resale agreements. Our current liabilities consist primarily of accounts payable to brokerage clients, which are primarily repayable on our customers' demand, and financial assets sold under repurchase agreements as well as short-term notes payable. Deposits from customers in our securities and futures brokerage businesses represent major components of our current assets and current liabilities. We include various customer deposits as current assets, including cash held for brokerage clients and customer clearing settlement funds. We include accounts payable to brokerage clients as current liabilities. Customer deposits fluctuate based on our customers' trading activities, market conditions and other external factors beyond our control. As a result, customer deposits in our brokerage business are not a meaningful indicator of our financial condition or results of operations. See “– Adjusted assets and liabilities” below for information on our assets and liabilities excluding customer deposits in our brokerage business.

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

As of April 30, 2014, our net current assets increased to RMB5,005.7 million compared to RMB3,302.6 million as of December 31, 2013, because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our current assets was primarily due to a combination of (i) an increase in financial assets held for trading as a result of our increased proprietary bond trading; (ii) an increase in financial assets held under resale agreements due to our increased offering of securities-backed lending and securities repurchases; (iii) an increase in our margin accounts receivables due to the continued expansion of our margin financing and securities lending business; and (iv) our increased cash and bank balances following our corporate bond offering in April 2014.

As of December 31, 2013, our net current assets increased to RMB3,302.6 million compared to RMB3,058.1 million as of December 31, 2012 because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our current assets was primarily due to a significant increase in our margin accounts receivable as a result of the growth of our margin financing and securities lending business. The increase in our current liabilities was due primarily to (i) our issue of RMB800.0 million of short-term notes in October 2013, (ii) the recognition of RMB707.4 million in our financial liabilities designated at fair value through profit or loss due primarily to the consolidation of certain collective asset management schemes which we managed according to the new accounting standards in 2013 (see “– Significant Accounting Policies and Estimates”), and (iii) RMB400.0 million due to China Securities Finance.

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As of December 31, 2012, our net current assets increased to RMB3,058.1 million compared to RMB2,951.8 million as of December 31, 2011, because our total current assets increased while our total current liabilities remained stable. The increase in our current assets was due primarily to (i) a RMB564.6 million increase in our cash and bank balances due to our income from business activities and disposals of a portion of our financial assets; and (ii) RMB210.8 million of margin account receivable after we started the margin financing and securities lending business in July 2012, which were partially offset by decreases in our financial assets held under resale agreements and cash held for brokerage clients.

Our Directors confirm that we did not have any material default in payment of trade and non-trade payables during the Track Record Period.

### *Adjusted assets and liabilities*

As clients' deposits held by us fluctuate based on our customers' trading activities, market conditions and other external factors beyond our control, we have adjusted our current assets and liabilities to exclude accounts payable to brokerage clients to provide more meaningful indicators of our financial condition.

	As of December 31,			As of April 30,
	2011	2012	2013	2014 (unaudited)
	<i>(RMB in millions)</i>			
Adjusted current assets <sup>(1)</sup> . . . . .	5,062.4	5,211.6	7,782.6	9,441.0
Adjusted current liabilities <sup>(2)</sup> . . . . .	2,110.6	2,153.5	4,480.0	4,435.3
Current ratio <sup>(3)</sup> . . . . .	239.9%	242.0%	173.7%	212.9%

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

(2) Adjusted current liabilities equal total current liabilities less accounts payable to brokerage clients.

(3) Current ratio is calculated by dividing the adjusted current assets by the adjusted current liabilities.

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### *Non-current assets and liabilities*

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

	As of December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
<b>Non-current assets</b>			
Property and equipment . . . . .	252.6	242.0	225.8
Investment properties . . . . .	26.6	30.3	30.8
Goodwill . . . . .	7.3	7.3	7.3
Intangible assets . . . . .	26.4	32.4	46.8
Other non-current assets . . . . .	59.1	52.4	37.9
Deferred income tax assets . . . . .	47.3	57.1	71.2
Available-for-sale financial assets . . . . .	56.1	89.1	40.1
Refundable deposits . . . . .	199.7	272.7	413.0
<b>Total non-current assets . . . . .</b>	<b>675.1</b>	<b>783.3</b>	<b>872.9</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities . . . . .	–	2.8	0.3

Our non-current assets mainly include fixed assets, available-for-sale investments and refundable deposits. Our fixed assets mainly consist of equipment and real property used for operational purposes. Our available-for-sale financial assets primarily include our equity investments in private companies. Our refundable deposits include deposits we made to stock exchanges and futures exchanges in China as well as China Securities Finance for conducting various types of brokerage activities.

Our non-current assets increased from RMB675.1 million as of December 31, 2011, to RMB783.3 million as of December 31, 2012, due primarily to increases in our refundable deposits due to increased brokerage activities and available-for-sale financial assets. Our non-current assets increased to RMB872.9 million as of December 31, 2013, due primarily to a substantial increase in our refundable deposits relating to our futures brokerage business and margin refinancing activities.

As of December 31, 2012 and 2013, our non-current liabilities consisted only of deferred income tax liabilities.

### *Indebtedness*

As of April 30, 2014, the latest date for determining our indebtedness, we had RMB800.0 million of short-term notes payable and RMB1,491.7 million of bonds payable. We do not rely on bank borrowings in the ordinary course of our business and did not incur any bank borrowing as of December 31, 2011, 2012 and 2013. As of each of December 31, 2013 and April 30, 2014, we had RMB2,950.0 million of banking facilities, all of which were unutilized and unrestricted.

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In May 2013, our Shareholders authorized us to issue short-term notes not exceeding 60% of our Net Capital. On September 11, 2013, the PBOC approved that we may, at our discretion, issue short-term notes in an aggregate principal amount of up to RMB1.7 billion within a 12-month period. We issued the first tranche of fixed interest rate short-term notes with a principal amount of RMB800.0 million on October 14, 2013, in the national interbank bond market through a bidding process. This tranche of short-term notes had a term of 90 days, an interest rate of 5.35%, an issuer rating of AA and a bond rating of A-1. We fully repaid the first tranche of short-term notes on January 13, 2014, and issued the second tranche of short-term notes on January 9, 2014, with a principal amount of RMB900.0 million. The second tranche of short-term notes bears an interest rate of 6.65% and has the same maturity term and ratings as the first tranche. We fully repaid the second tranche of short-term notes on April 10, 2014. On April 4, 2014, we issued the third tranche of short-term notes with a principal amount of RMB800.0 million. The third tranche of short-term notes bears an interest rate of 5.0% and has the same maturity term and ratings as the previous two tranches. We used the proceeds raised from the short-term notes for replenishing our working capital. Our short-term notes are not subject to any material restrictive covenants and are unsecured. We intend to issue additional tranches of short-term notes in 2014, subject to market conditions and our capital requirements.

In addition, at a Shareholders' meeting on November 14, 2013, our Shareholders authorized us to issue corporate bonds in an aggregate principal amount of up to RMB1.5 billion. On April 25, 2014, we completed the issuance of RMB1.5 billion of corporate bonds in China, which have the following key terms:

<b>Guarantor</b> . . . . .	China Bond Insurance Co., Ltd.
<b>Principal amount</b> . . . . .	RMB1.5 billion
<b>Interest</b> . . . . .	6.2%
<b>Maturity</b> . . . . .	Five years
<b>Issuer rating</b> . . . . .	AA
<b>Bond rating</b> . . . . .	AAA
<b>Rating agency</b> . . . . .	China LianHe Credit Rating Co., Ltd.
<b>Issue date</b> . . . . .	April 25, 2014
<b>Offer price</b> . . . . .	100%
<b>Face value</b> . . . . .	RMB100
<b>Listing venue</b> . . . . .	Shanghai Stock Exchange
<b>Restrictive covenants</b> . . . . .	None

According to the terms and conditions of our corporate bonds, we will appropriate 5% from our annual net profit to discretionary surplus reserve and an additional 1% (from 10% to 11%) from our annual net profit to general risk reserve during the term of the bonds. In addition, we are also committed to further increase our appropriation to discretionary surplus reserve and general risk reserve to 10% and 12%, respectively, when we fail, or expect we may fail, to honor any interest or principal payment obligations under our corporate bonds.

We used the proceeds from this corporate bond issuance to replenish our working capital. We believe that our corporate bonds can provide us with external funds at a longer term to support our business expansion, especially margin financing and securities lending.

Our Directors have confirmed that, except for the short-term notes and corporate bonds issued, there has not been any material change in our indebtedness since December 31, 2013.

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Apart from the foregoing, we did not have, as of April 30, 2014, 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 principally comprise expenditures for the purchase of property, equipment, intangible assets and other long-term assets. The following table sets forth our capital expenditures for the years indicated:

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Capital expenditures . . . . .	70.8	63.8	165.9

Our capital expenditures were RMB70.8 million, RMB63.8 million and RMB165.9 million in 2011, 2012 and 2013, respectively. During those periods, we incurred capital expenditures primarily for purchasing equipment and software as well as land use rights and expanding our branch network.

As of December 31, 2013, we estimated our capital expenditures for 2014 and 2015 to be approximately RMB282.2 million and RMB257.0 million, respectively, which we will use primarily for developing and constructing our new business complex, purchasing software and equipment and upgrading our IT system, including the electronic securities platform. We intend to finance these capital expenditures from our operating cash flow. For the four months ended April 30, 2014, we incurred RMB5.9 million of capital expenditures for purchasing IT equipment and software.

To satisfy our needs for expanding business and office space in Zhengzhou, centralizing our business and administrative functions, providing a secure location that we own for our IT infrastructure and promoting our corporate image, we plan to develop and construct a business complex on our newly-acquired land in Zhengzhou during the second half of 2014, after we have received the relevant title certificate. Upon completion, we believe this business complex will support our business expansion and long-term growth. We plan to incur approximately RMB210.0 million and RMB150.0 million, respectively, to develop and construct this business complex during the second half of 2014 and in 2015. See “Business – Properties.”

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### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

#### Capital Commitments

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

	As of December 31,			As of April 30,
	2011	2012	2013	2014
				(unaudited)
	<i>(RMB in millions)</i>			
Contracted but not provided for: . . . . .	8.3	7.2	15.2	19.9

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

#### Operating Lease Commitments

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

	As of December 31,			As of April 30,
	2011	2012	2013	2014
				(unaudited)
	<i>(RMB in millions)</i>			
Within one year . . . . .	34.3	33.4	35.2	30.3
One to three years . . . . .	47.9	41.0	36.1	30.9
Over three years . . . . .	38.9	29.2	19.4	17.9

#### Contingent Liabilities

As of December 31, 2013, we were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, we expect would materially and adversely affect our financial position and results of operations, although there can be no assurance that this will be the case in the future. As of the same date, we did not have any guarantees, mortgages, charges, or other material contingent liabilities.

The Directors confirm that there has been no material change in our contingent liabilities since December 31, 2013 to the date of this prospectus.



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### 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 49 to the Accountant's Report in Appendix I to this prospectus were 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 parties 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 do not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

### CAPITAL ADEQUACY AND RISK CONTROL INDICATORS

According to the Administrative Measures for the Risk Control Indicators of Securities firms in the PRC, we have established a dynamic net capital 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 engage our securities brokerage, investment banking, proprietary, asset management and margin financing and securities lending businesses. As of December 31, 2011, 2012 and 2013, we were in compliance with all of our capital adequacy and risk control index requirements. As of December 31, 2013, our Net Capital amounted to RMB2,936.2 million.

The following table sets forth our net capital and key regulatory risk control index that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

	As of December 31,			Warning level <sup>(1)</sup>	Minimum/Maximum level
	2011	2012	2013		
Net Capital <sup>(2)</sup> (RMB in millions) . . . . .	2,864.6	2,876.3	2,936.2	>240.0	>200.0
Net Capital/total risk capital reserves <sup>(3)</sup> (%) . . . . .	615.6	543.0	478.0	>120.0%	>100.0%
Net Capital/net assets (%) . . . . .	78.7	74.8	71.2	>48.0%	>40.0%
Net Capital/liabilities <sup>(4)</sup> (%) . . . . .	136.3	134.4	78.1	>9.6%	>8.0%
Net asset/liabilities (%) . . . . .	173.2	179.7	109.6	>24.0%	>20.0%
Value of equity securities and derivatives in proprietary trading business/Net capital (%) . . . . .	17.5	18.1	14.8	<80.0%	<100.0%
Value of fixed income securities in proprietary trading business/Net capital (%) . . . . .	117.2	107.6	98.7	<400.0%	<500.0%

(1) Warning level is set by the CSRC according to the Administrative Measures for the Risk Control Indicators of Securities firms in the PRC: if the risk control index is required to stay above a certain level, the warning level is 120.0% of the required minimum requirement, and if the risk control index is required to stay below a certain level, the warning is 80.0% of the required maximum requirement.

(2) Net capital = net assets – risk adjustments of financial assets – risk adjustments of other assets and contingent Liabilities +/- other adjustments determined or authorized by the CSRC.

(3) Risk capital reserves refer to risk capital reserves calculated based on a certain standard for the purpose of risk of net capital loss and may be incurred by securities firms in their business activities and establishment of subsidiaries, offices and branches, which should be related to the net capital, so that each risk capital reserve is supported by corresponding net capital.

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

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In addition to the risk control indicators mentioned above, the Risk Control Indicator Measures require us to comply with the following requirements when we engage in proprietary trading: (i) the cost of holding one kind of equity securities should not exceed 30.0% of our Net Capital and (ii) the market value of one kind of equity securities we hold should not exceed 5.0% of its total market value, except for that owing to underwriting activities or otherwise approved by the CSRC.

In addition, when conducting margin financing and securities lending business, we are required to comply with the following requirements: (i) the value of margin financing granted to a single customer should not exceed 5.0% of our Net Capital, (ii) the value of securities lent to a single customer should not exceed 5.0% of our Net Capital and (iii) the market value of any single stock collateral should not exceed 20.0% of its total market capitalization.

We closely monitor all risk control indicators when conducting our proprietary trading as well as margin financing and securities lending businesses. During the Track Record Period, we have not had any non-compliances with these risk control indicators, nor have we received any warnings or penalties from the CSRC.

### QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates, interest rate, equity prices and commodity prices and other changes in the economic environment. The market risk to which we are primarily exposed includes credit risk, interest rate risk, currency risk, price risk and liquidity risk.

#### Credit Risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. Our credit risks mainly come from financial assets which include bank balances, margin accounts receivables, interest receivables, available-for-sale financial assets, resale agreements, cash held for brokerage clients, financial assets held for trading, refundable deposits and clearing settlement funds.

Our bank balances are mainly deposited at state-owned commercial banks or joint-stock commercial banks, while clearing settlement funds are deposited in the CSDCC, with a corresponding low level of credit risk.

In terms of proprietary trading, if the transaction is through a stock exchange or CSDCC, the default risk of counterparty is lower, but for inter-bank market transactions, we will assess the counterparties and only select those with an approved credit rating.

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Margin trading assets include advances from margin customers and securities lent to customers. Credit risks associated with these financial assets mainly relate to customers' inability to repay the principal, interest or securities borrowed. We supervise finance trading accounts on an individual customer basis, and will require additional margin, cash collateral or securities if necessary. Margin accounts receivables are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance. As of December 31, 2012 and 2013, our collateral value was sufficient to mitigate the credit risk in margin trading.

Our credit risk also arises from the securities and futures brokerage businesses. If a customer fails to deposit sufficient trading funds, we may use our own funds to complete the settlement. We require customers to deposit all cash required in trading before they settle on behalf of customers, so as to mitigate and manage the credit risk properly.

### Maximum Credit Risk Exposure

Before considering collateral or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). Our maximum credit risk exposure is as follows:

	As of December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Refundable deposits . . . . .	199.7	272.7	413.0
Other current assets . . . . .	156.5	176.4	118.4
Margin accounts receivable . . . . .	–	210.8	2,259.5
Available-for-sale financial assets			
– Securities lent to clients . . . . .	–	–	7.3
– Wealth management products . . . . .	–	–	75.0
– Trust scheme . . . . .	–	–	257.3
Financial assets held under resale agreements . . . . .	860.0	498.4	793.1
Financial assets held for trading			
– Debt securities . . . . .	3,338.3	2,989.7	2,906.4
Clearing settlement funds . . . . .	511.7	662.3	1,104.8
Cash held for brokerage clients . . . . .	4,593.0	4,369.8	3,962.7
Bank balances . . . . .	432.6	997.0	569.8
Total . . . . .	10,091.8	10,177.1	12,467.3

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We utilize sensitivity analysis as the main tool for monitoring interest rate risk and measuring the impact of a reasonable and possible change of interest rate on its total profit and equity, assuming all other variables remain unchanged. Our debt securities are mainly comprised of corporate bonds, and we mitigate the interest rate risk through optimizing the duration and convexity of the bond portfolio. Interest rate risk in connection with cash held for brokerage customers in bank balances and clearing settlement funds is offset by the associated accounts payable to brokerage clients because their terms match with each other.

## FINANCIAL INFORMATION

The table below presents the residual maturities of our financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As of December 31, 2011							
	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non- interest bearing	Total
<i>(RMB in millions)</i>							
<b>Financial assets</b>							
Cash and bank balances . . . . .	402.6	–	30.0	–	–	0.5	433.1
Cash held for brokerage customers . . . . .	4,593.0	–	–	–	–	–	4,593.0
Clearing settlement funds . . . . .	511.7	–	–	–	–	–	511.7
Financial assets held for trading . . . . .	55.2	342.4	303.3	957.4	1,684.9	14.8	3,358.0
Financial assets held under resale agreements . . . . .	860.0	–	–	–	–	–	860.0
Refundable deposits . . . . .	110.0	–	–	–	–	89.7	199.7
Other current assets . . . . .	–	–	–	–	–	156.5	156.5
Available-for-sale financial assets . . . . .	–	–	–	–	–	429.3	429.3
<b>Sub-total . . . . .</b>	<b>6,532.5</b>	<b>342.4</b>	<b>333.3</b>	<b>957.4</b>	<b>1,684.9</b>	<b>690.8</b>	<b>10,541.3</b>
<b>Financial liabilities</b>							
Financial assets sold under repurchase agreements . . . . .	(1,903.9)	–	–	–	–	–	(1,903.9)
Accounts payable to brokerage clients . . . . .	(4,984.4)	–	–	–	–	(265.4)	(5,249.8)
Other current liabilities . . . . .	–	–	–	–	–	(68.5)	(68.5)
<b>Sub-total . . . . .</b>	<b>(6,888.3)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(333.9)</b>	<b>(7,222.2)</b>
<b>Interest rate sensitivity gap .</b>	<b>(355.8)</b>	<b>342.4</b>	<b>333.3</b>	<b>957.4</b>	<b>1,684.9</b>	<b>356.9</b>	<b>2,962.2</b>

## FINANCIAL INFORMATION

As of December 31, 2012

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non- interest bearing	Total
	<i>(RMB in millions)</i>						
<b>Financial assets</b>							
Cash and bank balances . . . . .	357.0	190.0	450.0	-	-	0.7	997.7
Cash held for brokerage customers . . . . .	4,369.8	-	-	-	-	-	4,369.8
Clearing settlement funds . . . . .	662.3	-	-	-	-	-	662.3
Financial assets held for trading . . . . .	105.1	52.0	151.2	1,282.5	1,503.9	304.8	3,399.5
Financial assets held under resale agreements . . . . .	453.7	-	44.7	-	-	-	498.4
Refundable deposits . . . . .	80.5	-	-	-	-	192.2	272.7
Other current assets . . . . .	-	-	-	30.0	-	146.4	176.4
Available-for-sale financial assets . . . . .	-	-	-	-	-	171.9	171.9
Margin accounts receivable . . . . .	3.3	28.0	179.5	-	-	-	210.8
<b>Sub-total . . . . .</b>	<b>6,031.7</b>	<b>270.0</b>	<b>825.4</b>	<b>1,312.5</b>	<b>1,503.9</b>	<b>816.0</b>	<b>10,759.5</b>
<b>Financial liabilities</b>							
Financial assets sold under repurchase agreements . . . . .	(1,758.9)	-	-	-	-	-	(1,758.9)
Accounts payable to brokerage clients . . . . .	(4,788.3)	-	-	-	-	(420.3)	(5,208.6)
Other current liabilities . . . . .	(43.2)	-	-	-	-	(52.1)	(95.3)
<b>Sub-total . . . . .</b>	<b>(6,590.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(472.4)</b>	<b>(7,062.8)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(558.7)</b>	<b>270.0</b>	<b>825.4</b>	<b>1,312.5</b>	<b>1,503.9</b>	<b>343.6</b>	<b>3,353.1</b>

## FINANCIAL INFORMATION

As of December 31, 2013

	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Above 5 years</u>	<u>Non- interest bearing</u>	<u>Total</u>
	<i>(RMB in millions)</i>						
<b>Financial assets</b>							
Cash and bank balances . . . . .	381.6	88.2	100.0	–	–	0.6	570.4
Cash held for brokerage customers . . . . .	3,962.7	–	–	–	–	–	3,962.7
Clearing settlement funds . . . . .	1,104.8	–	–	–	–	–	1,104.8
Financial assets held for trading . . . . .	287.2	100.1	196.7	1,033.3	1,546.3	275.4	3,439.0
Financial assets held under resale agreements . . . . .	474.7	61.3	227.1	30.0	–	–	793.1
Refundable deposits . . . . .	187.6	–	–	–	–	225.4	413.0
Other current assets . . . . .	–	–	–	–	–	118.4	118.4
Available-for-sale financial assets . . . . .	0.7	75.1	263.9	–	–	91.5	431.2
Margin accounts receivable . . . . .	81.6	315.5	1,862.4	–	–	–	2,259.5
<b>Sub-total . . . . .</b>	<b><u>6,480.9</u></b>	<b><u>640.2</u></b>	<b><u>2,650.1</u></b>	<b><u>1,063.3</u></b>	<b><u>1,546.3</u></b>	<b><u>711.3</u></b>	<b><u>13,092.1</u></b>
<b>Financial liabilities</b>							
Short-term notes payable . . . . .	(800.0)	–	–	–	–	–	(800.0)
Due to other financial institutions . . . . .	–	(400.0)	–	–	–	–	(400.0)
Financial assets sold under repurchase agreements . . . . .	(1,701.6)	(394.7)	–	–	–	–	(2,096.3)
Accounts payable to brokerage clients . . . . .	(4,459.4)	–	–	–	–	(534.7)	(4,994.1)
Other current liabilities . . . . .	–	–	–	–	–	(145.7)	(145.7)
Financial liabilities designated at fair value through profit or loss . . . . .	–	–	–	–	–	(707.4)	(707.4)
<b>Sub-total . . . . .</b>	<b><u>(6,961.0)</u></b>	<b><u>(794.7)</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>(1,387.8)</u></b>	<b><u>(9,143.5)</u></b>
<b>Interest rate sensitivity gap . . . . .</b>	<b><u>(480.1)</u></b>	<b><u>(154.5)</u></b>	<b><u>2,650.1</u></b>	<b><u>1,063.3</u></b>	<b><u>1,546.3</u></b>	<b><u>(676.5)</u></b>	<b><u>4,625.1</u></b>

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## FINANCIAL INFORMATION

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### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and interest-bearing liabilities. A 100 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Profit before income tax			
Increases by 100bps . . . . .	710	12	(146)
Decreases by 100bps . . . . .	(710)	(12)	146
	<u>          </u>	<u>          </u>	<u>          </u>

When conducting interest rate sensitivity analysis, we make the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are repriced in the middle of the relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviors not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving the same direction and extent; and
- necessary measures that may be adopted by us in response to interest rate changes not considered.

### **Currency Risk**

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

Our currency risk primarily relates to our operating activities whose settlements and payments are denominated in foreign currencies different from our functional currency.

The foreign currency assets and liabilities held by us are not material compared to the total assets and liabilities. In terms of our revenue structure, the majority of the business transactions are denominated in Renminbi, with only insignificant revenue from foreign currency transactions. We consider that our currency risk is immaterial.



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## FINANCIAL INFORMATION

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### Price Risk

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

Our price risk exposure mainly relates to investments in stocks, funds, convertible bonds, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. We are subject to relatively high market risk due to the high volatility of the domestic stock markets.

Our price risk management policy requires setting and managing investment objectives. Our directors manage price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. We have derivatives contracts to economically hedge against the exposure arising from our investment portfolio.

### Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of stocks, funds, convertible bonds, derivatives and collective asset management schemes by 10.0%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Profit before income tax			
Increase by 10.0% . . . . .	7.5	39.8	35.7
Decrease by 10.0% . . . . .	(72.0)	(113.6)	(65.1)

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Other comprehensive income before income tax			
Increase by 10.0% . . . . .	48.2	20.4	5.9
Decrease by 10.0% . . . . .	(48.2)	(20.4)	(5.9)

**Liquidity Risk**

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, we may face liquidity risk caused by macro-economic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, large underwriting on a firm commitment basis, significant proprietary trading position, or an overly high ratio of long-term investments. If we fail to address any liquidity risk by adjusting the asset structure or complying with regulatory requirements on the risk indicators, we could be subject to penalties by the regulatory authorities in the form of restrictions on our business operations, which would have a material and adverse impact on our operations and reputation.

We manage and control our funds in a centralized manner. Through early warnings and focusing on individually large amounts of funds, we achieve the objective of centralized control and management of liquidity risk. By finding an appropriate balance between safety, liquidity and profitability, we adjust and allocate asset sizes and structural provisions, so as to establish a multi-level liquidity reserve system and achieve liquidity risk management objectives by leveraging money market and capital market transactions in a timely manner.

We prepare funding plans and report their implementation to the management to update the liquidity position in a timely manner.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the group. We invest surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. As of December 31, 2011, 2012 and 2013, we had cash and cash equivalents of RMB444.2 million, RMB1,033.2 million and RMB755.5 million, respectively, that are expected to readily generate cash inflows for managing liquidity risk. In addition, we hold financial assets for trading of RMB3,358.0 million, RMB3,399.5 million and RMB3,439.0 million, respectively, in 2011, 2012 and 2013, which could be readily realized to provide a further source of cash if the need arose.

***Sensitivity analysis***

As commission and fee income from securities brokerage business and investment gains in our proprietary trading business represented substantial portions of our total revenue and other income, we have performed the following sensitivity analysis based on the fluctuations of our securities brokerage trading volume and investment return on equity securities.

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## FINANCIAL INFORMATION

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### *Securities brokerage trading volume*

A 10% increase or decrease in our securities brokerage trading volume during the relevant periods, assuming all other variables unchanged, our cash and cash equivalents would increase or decrease by the following amounts:

	As of December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
<b>Securities brokerage trading volume</b>			
Increase by 10% .....	41.0	29.3	43.9
Decrease by 10% .....	(41.0)	(29.3)	(43.9)
	41.0	29.3	43.9

### *Investment return on equity securities*

A 2% increase or decrease in our investment return on equity securities during the relevant periods, assuming all other variables unchanged, our cash and cash equivalents would increase or decrease by the following amounts:

	As of December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
<b>Investment return on equity securities</b>			
Increase by 2% .....	13.9	7.1	7.8
Decrease by 2% .....	(13.9)	(7.1)	(7.8)
	13.9	7.1	7.8

## **DIVIDEND POLICY**

After the completion of the Global Offering, we may distribute dividends by way of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, future 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 PRC law 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 reserve for general risk equivalent to 10.0% of our profit after tax, and, when the reserve for general risk reaches and is maintained at or above 50.0% of our registered capital, no further allocations to this reserve for general risk will be required;

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## FINANCIAL INFORMATION

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- allocations to the statutory reserve equivalent to 10.0% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50.0% of our registered capital, no further allocations to this statutory reserve will be required;
- allocations to the transaction risk reserve of not less than 10.0% of our profit after tax; and
- allocations, if any, to a discretionary common reserve fund that are approved by our Shareholders in a Shareholders' meeting.

In accordance with our Articles of Association, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is a lower amount. Following the Global Offering, we plan to distribute not less than 10.0% of our distributable profits realized in that year as cash dividends in any fiscal year so long as we have profits after tax and accumulated undistributed profits in that year, except that we may decide not to distribute cash dividends because of a significant investment.

In 2011, we distributed cash dividends of RMB447.4 million to our Shareholders. We did not declare any cash dividends in 2012 and 2013. At a Shareholders' meeting on December 1, 2013, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing shareholders and new shareholders.

Pursuant to PRC tax regulations, foreign inventors of our H Shares are subject to PRC individual income tax on dividends received from us. The tax rate applicable to dividends paid to foreign inventors of our H Shares is usually 10.0%. However, a different rate may apply depending on whether there is any applicable tax treaty between the PRC and the jurisdiction of the foreign inventors. See "Risk Factors – Risks Relating to the PRC – You may be subject to PRC taxation on dividends received from us."

### **DISTRIBUTABLE RESERVES**

As of December 31, 2013, we had reserves of RMB1,158.2 million available for distribution to the shareholders of our Company.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders which has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules for the purpose of illustrating the effect of the Global Offering as if the Global Offering had taken place on December 31, 2013, and based on our consolidated net tangible assets attributable to our Shareholders at December 31, 2013, extracted from the Accountant's Report of the Group set out in Appendix I of this prospectus and adjusted as described below.

	<b>Audited consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2013<sup>(1)</sup></b>	<b>Estimated net proceeds from the Global Offering<sup>(2)(4)</sup></b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share<sup>(3)(4)(5)</sup></b>	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB)</i>	<i>(HK\$)</i>
Based on the offer price of HK\$2.51 for each Offer Share . . . . .	4,037.3	1,111.6	5,148.9	1.96	2.46
Based on the offer price of HK\$3.14 for each Offer Share . . . . .	4,037.3	1,402.4	5,439.7	2.07	2.60

- (1) The audited consolidated net tangible assets of the Group attributable to the owners as of December 31, 2013, has been extracted from the Accountant's Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the offer price of HK\$2.51 per share and HK\$3.14 per share, respectively, after deduction of the underwriting fees and other related expenses payable by us, and based on the assumption that no over-allotment option will be granted.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share are calculated after the adjustments referred to in note (2) above and on the basis that 598,100,000 shares are issued, assuming the Global Offering had been completed on December 31, 2013, and no over-allotment option will be granted.
- (4) The translation between Renminbi and Hong Kong dollars has been made at the rate of RMB0.7958 to HK\$1.00, the PBOC rate prevailing on May 30, 2014. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company to reflect any trading results or other transactions which the Group entered into subsequent to December 31, 2013.

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## FINANCIAL INFORMATION

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### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that there is no event which could materially affect the information shown in our consolidated financial statements included in the Accountant's Report set forth in Appendix I to this prospectus since December 31, 2013 and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

### **DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES**

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Hong Kong Listing Rules.

### **LISTING EXPENSES**

We expect to incur RMB87.7 million of listing expenses (assuming an offer price of HK\$2.83 per H Share, which is the mid-point of the stated range of the Offer Price between HK\$2.51 and HK\$3.14 per H Share) until the completion of the Global Offering, of which RMB7.7 million is expected to be charged to our consolidated statements of comprehensive income and RMB80.0 million is expected to be accounted for as a deduction from our equity. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. We do not expect these listing expenses to have a material impact on our results of operations in 2014.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See “Business – Business Strategies” of this prospectus for a detailed discussion of our future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$2.83 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$2.51 and HK\$3.14 per H Share), we estimate that we will receive net proceeds of approximately HK\$1,582.4 million from the Global Offering after deducting the underwriting commission and other estimated expenses in connection with the Global Offering. In line with our strategies, we intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 50.0%, or HK\$791.2 million, will be used to further develop our margin financing and securities lending business by leveraging our competitive strengths in the securities brokerage business and increasing the penetration rate among our existing clients qualified for margin financing and securities lending;
- Approximately 25.0%, or HK\$395.6 million, will be used to develop our capital based intermediary business to meet our client needs in investment and financing, including: (i) expanding our securities-backed lending and securities repurchase, (ii) gradually engaging in OTC-based products and market-making; and (iii) actively expanding other capital-based intermediary business to be approved by the CSRC;
- Approximately 25.0%, or HK\$395.6 million, will be used to increase investments in fixed-income securities and other proprietary trading products, and increase the registered capital of ZDKY Venture Capital for prudently expanding our direct investment business.

We intend to use all the additional net proceeds proportionately as earmarked above. The allocation of the proceeds used for the above will be adjusted in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated Offer Price range. If the Offer Price is fixed at HK\$3.14 per H Share, being the high end of the stated Offer Share range, our net proceeds will be increased by approximately HK\$179.8 million. In such circumstances, we presently intend to use such additional proceeds to increase the net proceeds applied to the same purposes above on a *pro rata* basis. If the Offer Price is fixed at HK\$2.51 per H Share, being the low end of the stated Offer Share range, our net proceeds will be decreased by approximately HK\$185.6 million. In such circumstances, we presently intend to reduce the net proceeds applied to the same purposes on a *pro rata* basis.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments, such as liquid fixed-income securities, bank deposits or money market funds with licensed banks or financial institutions in Hong Kong or the PRC.



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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### *Joint Lead Managers*

CCB International Capital Limited  
ICBC International Securities Limited  
The Hongkong and Shanghai Banking Corporation Limited  
BOCOM International Securities Limited  
DBS Asia Capital Limited  
ABCI Securities Company Limited  
BOCI Asia Limited  
GF Securities (Hong Kong) Brokerage Limited  
China Galaxy International Securities (Hong Kong) Co., Limited  
Qilu International Securities Limited  
Essence International Securities (Hong Kong) Limited

#### *Co-lead Managers*

Yicko Securities Limited  
Convoy Investment Services Limited  
RHB OSK Securities Hong Kong Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **Hong Kong Public Offering**

#### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 59,810,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, our H Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement (which is expected to be entered into on or around the date of this prospectus), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

One of the conditions is that the Offer Price must be agreed between us and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, the Global Offering will not proceed.

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## UNDERWRITING

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### *Grounds for Termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Hong Kong Stock Exchange:

- (a) there develops, occurs, exists or comes into force:
  - (i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “**Relevant Jurisdiction**”); or
  - (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or
  - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or
  - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
  - (v) any moratorium, suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

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- (vi) any moratorium, suspension or restriction in or on trading in any securities of any other member of our Group listed or quoted on a stock exchange or an over-the-counter market;
- (vii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent governmental authority), New York (imposed at Federal or New York State level or other competent governmental authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services in any Relevant Jurisdiction; or
- (viii) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- (ix) the issue or requirement to issue by our Company of a supplemental or amendment to this prospectus, the Application Forms, the preliminary offering circular or the offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Companies Ordinance or Companies (Winding up and Miscellaneous Provisions) Ordinance, or the Hong Kong Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange or the SFC; or
- (x) any litigation or claim being threatened or instigated against any member of our Group; or
- (xi) any contravention by any Group member or any Director of the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance, the PRC Company Law or any of the Hong Kong Listing Rules; or
- (xii) a governmental authority or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any Director or any member of our Group; or
- (xiii) any of our chairman or president vacating his office, any executive Director being charged with an indictable offence or prohibited by operation of Laws or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any Director in his or her capacity as such or an announcement by any governmental, political, regulatory body that it intends to take any such action; or

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- (xiv) any material adverse change or prospective material adverse change in the earnings, results of operations business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of any member of our Group (including any litigation or claim of any third party being threatened or instigated against any member of our Group); or
  
- (xv) any demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of our Group, or any member of our Group making any composition or arrangement with our creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
  
- (xvi) a governmental or regulatory prohibition on our Company for whatever reason from allotting or selling the H Shares pursuant to the terms of the Global Offering; or

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (A) is or will be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position (financial otherwise), or prospects of our Company or our Group as a whole or to any present or prospective shareholder of our Company in its capacity as such; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice, the preliminary offering circular or the offering circular; or (D) would have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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## UNDERWRITING

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- (b) there has come to the notice of the Sole Sponsor, Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, or any of the Hong Kong Underwriters:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice, the application proof, and/or any notices, announcements, advertisements, communications issued or used by or on behalf of our Company in connection with this prospectus, the Application Forms and the formal notice (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading in any material respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms and the formal notice (the “**Hong Kong Public Offering Document**”), the post hearing information pack, the application proof, and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
  - (ii) any contravention by any member of our Group of the Companies Ordinance Companies (Winding up and Miscellaneous Provisions) Ordinance, the Company Law or any of the Hong Kong Listing Rules; or
  - (iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable law or regulation which could have an adverse effect on the Global Offering, or the business or financial or trading positions of the Company or the Group as a whole; or
  - (iv) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
  - (v) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by our Company or (ii) any of the representations, warranties and undertakings given by our Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or
  - (vi) any of the reporting accountant, or any of the counsel or advisor of our Company or other experts has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
  - (vii) any event, act or omission which gives or is likely to give rise to any liability of our Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement if such liability has an adverse effect on the business or financial or trading positions of the Group as a whole; or

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- (viii) any litigation or dispute or potential litigation or dispute, which would affect the operation, financial condition or reputation of our Group as a whole or any member of our Group in any material respect; or
- (ix) any material breach of any of the obligations of our Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (x) a significant portion of the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled; or
- (xi) any person (other than the Sole Sponsor) has withdrawn its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or
- (xii) any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial, trading positions, prospects or otherwise) of our Company and its subsidiaries, as a whole; or
- (xiii) our Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Global Coordinators may (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving notice in writing to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

### **Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules**

#### ***Undertakings by Us***

We are expected to undertake to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the Global Offering, no further shares or securities convertible into securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

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## UNDERWRITING

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### *Undertakings by our Controlling Shareholder*

Pursuant to Rule 10.07 of the Hong Kong Listing Rules, our Controlling Shareholder is expected to undertake to us and to the Hong Kong Stock Exchange, except pursuant to the Global Offering, that it will not, and shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Hong Kong Stock Exchange or unless otherwise in compliance with applicable requirements of the Hong Kong Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Hong Kong Listing Rules) (the “**Parent Shares**”); or
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares if, immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our Controlling Shareholder (as defined in the Hong Kong Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Hong Kong Listing Rules, our Controlling Shareholder is expected to undertake to us and to the Hong Kong Stock Exchange that, during the First Six-Month Period and the Second Six-Month Period, it will:

- (a) when it pledges or charges any of our securities beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) as security for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholder and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Hong Kong Listing Rules as soon as possible after being so informed.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### *Undertakings by us*

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering, at any time during the



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## UNDERWRITING

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First Six Month Period, we will not without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the its share capital or any other securities of our Company and/or such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other securities of our Company and/or such other member of our Group, as applicable), or deposit any share capital or other securities of our Company and/or such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Shares or any other securities of the Company and/or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction described above; or
- (iv) offer to or agree to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or publicly disclose that we will or may enter into any transaction described above.

In the event of an issue or disposal of any H Shares or any interest therein after the date falling six months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, we will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of us will, create a disorderly or false market for any Shares or other securities of us.

### **The International Offering**

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain

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conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

No over-allotment option will be granted by our Company to any International Underwriters.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

### **Commission, Expenses and Sole Sponsor's Fee**

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, the Company may, in its sole and absolute discretion, pay any one or all of the Underwriters an incentive fee of such amount to be determined by our Company.

Based on an Offer Price of HK\$2.83 per H Share (being the mid-point of the indicative offer price range of HK\$2.51 to HK\$3.14 per H Share), the aggregate commission and fee, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering (collectively the "Commission and Fee") are estimated to be approximately HK\$110.2 million in total.

### **Underwriting**

We are expected to agree to indemnify the Hong Kong Underwriters and International Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company of the Underwriting Agreements.

### **Hong Kong Underwriters' Interests in our Company**

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

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## UNDERWRITING

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Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

### **Over-allotment and Stabilization**

No over-allotment option will be granted by our Company and details of the arrangements relating to the over-allotment option and stabilization are set forth in “Structure of the Global Offering.”

### **Sole Sponsor’s Independence**

CCB International Capital Limited, being the Sole Sponsor, satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Hong Kong Listing Rules.

### **Activities by Syndicate Members**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

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## UNDERWRITING

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It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members of their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 59,810,000 Offer Shares in Hong Kong as described in the section entitled “The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of initially 538,290,000 H Shares outside the United States (including to professional and institution investors within Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 22.727% of the enlarged issued share capital of the Company immediately after completion of the Global Offering.

The number of the Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in “Reallocation” below.

### HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 59,810,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of the Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 10% of the Company’s registered capital immediately after completion of the Global Offering. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “Conditions of the Hong Kong Public Offering” below.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

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## STRUCTURE OF THE GLOBAL OFFERING

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The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 29,905,000 Offer Shares for pool A and 29,905,000 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 29,905,000 Offer Shares are liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. 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 Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. In the event of oversubscription under the Hong Kong Public Offering, the Joint Global Coordinators shall apply a clawback mechanism following the closing of the application lists on the following basis:

- If the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 179,430,000 H Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering.
- If the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the H Shares available under the Hong Kong Public Offering will be 239,240,000 H Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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- If the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the H Shares available under the Hong Kong Public Offering will be 299,050,000 H Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.14 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Pricing of the Global Offering" below, is less than the maximum price of HK\$3.14 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply for Hong Kong Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.



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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL OFFERING

#### Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 538,290,000 Offer Shares to be offered by us.

#### Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section entitled “Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

#### Over-allotment Option and Stabilization

Pursuant to article 25 of the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則), the aggregate direct holdings and/or indirect control by all foreign investors in the equity interest of a listed PRC-incorporated securities company shall not exceed 25.0%. In order not to contravene the above rules, no over-allotment option will be granted by our Company in connection with the Global Offering. No stabilization manager will be appointed and it is anticipated that no stabilization activity will be carried out.

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## STRUCTURE OF THE GLOBAL OFFERING

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### STABILIZATION

No stabilization manager will be appointed and it is anticipated that no stabilization activity will be carried out in connection with the Global Offering.

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to any over-allotment option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the stabilizing manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the stabilizing manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the stabilizing manager, or any person acting for it, will maintain the long position is at the discretion of the stabilizing manager and is uncertain. In the event that the stabilizing manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the stabilizing manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public

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## STRUCTURE OF THE GLOBAL OFFERING

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Offering. The stabilizing period is expected to end on July 16, 2014. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. It is anticipated that no stabilization activity will be carried out during the stabilization period. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

### PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, June 17, 2014 (Hong Kong time), and in any event on or before Saturday, June 21, 2014 (Hong Kong time), by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$3.14 per H Share and is expected to be not less than HK\$2.51 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of the Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, 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 Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.ccnew.com](http://www.ccnew.com)) an announcement/a supplemental prospectus (as appropriate) in connection with the reduction. Upon issue of such announcement/supplemental prospectus (as appropriate), the number of the Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants

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## STRUCTURE OF THE GLOBAL OFFERING

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should have regard to the possibility that any announcement of a reduction in the number of the Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such announcement/supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such announcement/supplemental prospectus (as appropriate) so published, the Offer Price, if agreed upon with our Company and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of the Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of the Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The Offer Price for H Shares under the Global Offering is expected to be announced on Tuesday, June 24, 2014. The indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Tuesday, June 24, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.ccnew.com](http://www.ccnew.com)).

### HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is expected to be fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section entitled “Underwriting.”

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## STRUCTURE OF THE GLOBAL OFFERING

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### H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, June 25, 2014, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, June 25, 2014. Our H Shares will be traded in board lots of 1,000 H Shares each and the stock code of our H Shares will be 01375.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (subject only to allotment);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

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## STRUCTURE OF THE GLOBAL OFFERING

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The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section entitled “How to Apply for Hong Kong Offer Shares.” In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Tuesday, June 24, 2014 but will only become valid certificates of title at 8:00 a.m. on Wednesday, June 25, 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled “Underwriting – Grounds for Termination” has not been exercised.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** service and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a connected person (as defined in the Hong Kong Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 11, 2014 till 12:00 noon on Monday, June 16, 2014 from:

any of the following offices of the Hong Kong Underwriters:

#### **CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

#### **ICBC International Securities Limited**

37/F, ICBC Tower  
3 Garden Road  
Hong Kong

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### **The Hongkong and Shanghai Banking Corporation Limited**

1 Queen's Road Central  
Hong Kong

### **BOCOM International Securities Limited**

9th Floor, Man Yee Building  
68 Des Voeux Road  
Central  
Hong Kong

### **DBS Asia Capital Limited**

17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

### **ABCI Securities Company Limited**

Room 701, 7/F, One Pacific Place  
88 Queensway  
Hong Kong

### **BOCI Asia Limited**

26th Floor, Bank of China Tower  
1 Garden Road  
Hong Kong

### **GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Central  
Hong Kong

### **China Galaxy International Securities (Hong Kong) Co., Limited**

Unit 3501-7, 3513-14, 35/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

### **Qilu International Securities Limited**

7th Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Central  
Hong Kong

### **Essence International Securities (Hong Kong) Limited**

39/F., One Exchange Square  
Central  
Hong Kong

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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any of the branches of the following receiving banks:

<u>Branch</u>	<u>Address</u>
<b>Bank of China (Hong Kong) Limited</b>	
<b>Hong Kong Island</b>	
Bank of China Tower Branch	3/F, 1 Garden Road
Connaught Road Central Branch	13-14 Connaught Road Central
United Centre Branch	Shop 1021, United Centre, 95 Queensway
North Point (King's Centre) Branch	193-209 King's Road, North Point
<b>Kowloon</b>	
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
<b>New Territories</b>	
City One Sha Tin Branch	Shop A, 16-20 Ngan Shing Commercial Centre, City One, Sha Tin
Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O
<b>China Construction Bank (Asia) Corporation Limited</b>	
<b>Hong Kong Island</b>	
Central Des Voeux Road Branch	99 Des Voeux Road Central, Central
Wanchai Queen's Road East Branch	72 Queen's Road East, Wanchai
<b>Kowloon</b>	
Kowloon Bay Amoy Gardens Branch	Shop 181, G/F, Phase IIA, Amoy Gardens, Kowloon Bay
<b>New Territories</b>	
Tsuen Wan Branch	282 Sha Tsui Road, Tsuen Wan
<b>DBS Bank (Hong Kong) Limited</b>	
<b>Hong Kong Island</b>	
Head Office	G/F, The Center, 99 Queen's Road Central
Hennessy Road Branch	G/F, 427-429 Hennessy Road, Causeway Bay
<b>Kowloon</b>	
Hoi Yuen Road Branch	Unit 2, G/F, Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong
<b>New Territories</b>	
Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 11, 2014 till 12:00 noon on Monday, June 16, 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### TIME FOR LODGING APPLICATION FORMS

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited – Central China Securities Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Wednesday, June 11, 2014 – 9:00 a.m. to 5:00 p.m.
- Thursday, June 12, 2014 – 9:00 a.m. to 5:00 p.m.
- Friday, June 13, 2014 – 9:00 a.m. to 5:00 p.m.
- Saturday, June 14, 2014 – 9:00 a.m. to 1:00 p.m.
- Monday, June 16, 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, June 16, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

### TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

### **APPLYING THROUGH WHITE FORM eIPO SERVICE**

#### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

#### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, June 11, 2014 until 11:30 a.m. on Monday, June 16, 2014 and the latest time for

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, June 16, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

### No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Central China Securities Co., Ltd.” **White Form eIPO** application submitted via the **www.eipo.com.hk** to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

## APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
2/F Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our H Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Wednesday, June 11, 2014 – 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, June 12, 2014 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Friday, June 13, 2014 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Saturday, June 14, 2014 – 8:00 a.m. to 1:00 p.m.<sup>(1)</sup>
- Monday, June 16, 2014 – 8:00 a.m.<sup>(1)</sup> to 12:00 noon

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*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, June 11, 2014 until 12:00 noon on Monday, June 16, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, June 16, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Sole Sponsor, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, June 16, 2014.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit. All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering – Pricing and Allocation.”

### EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, June 16, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, June 16, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

### PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, June 24, 2014 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Company’s website at **www.ccnew.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at **www.ccnew.com** and the Hong Kong Stock Exchange’s website at **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, June 24, 2014;



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- from the designated results of allocations website at **www.iporesults.com.hk** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, June 24, 2014 to 12:00 midnight on Monday, June 30, 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, June 24, 2014 to Friday, June 27, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, June 24, 2014 to Thursday, June 26, 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

#### **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50.0% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$3.14 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, June 24, 2014.

### DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, June 24, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, June 25, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **PERSONAL COLLECTION**

#### **If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, June 24, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, June 24, 2014, by ordinary post and at your own risk.

#### **If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, June 24, 2014, by ordinary post and at your own risk.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, June 24, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, June 24, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **If you apply through the White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, June 24, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions /refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, June 24, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### If you apply via Electronic Application Instructions to HKSCC

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, June 24, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, June 24, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, June 24, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, June 24, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, June 24, 2014.

### ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the Directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

11 June 2014

The Directors  
Central China Securities Co., Ltd.

CCB International Capital Limited

Dear Sirs,

We report on the Financial Information of Central China Securities Co., Ltd. (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 December 2011, 2012 and 2013, the statements of financial position of the Company as at 31 December 2011, 2012 and 2013 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the Directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 11 June 2014 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Approved by China Securities Regulatory Commission (the "CSRC"), the Company was established in Henan Province, the People's Republic of China on 8 November 2002 as a company limited by shares.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 23 of Section II below.

The Directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with Accounting Standards for Business Enterprises of the People's Republic of China ("CAS") issued by the China Ministry of Finance

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T: +852 2289 8888, F: +852 2810 9888, [www.pwchk.com](http://www.pwchk.com)*

(the “Consolidated Financial Statements”). The Directors of the Company are responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with CAS. The Consolidated Financial Statements were audited by ShineWing Certified Public Accountants LLP (信永中和會計師事務所(特殊普通合伙)) in accordance with China Standards on Auditing issued by Chinese Institute of Certified Public Accountants (the “CICPA”) pursuant to separate terms of engagement with the Company.

The financial information presented below, prepared in accordance with International Financial Reporting Standards (the “IFRS”) issued by the International Accounting Standards Board (the “IASB”), has been prepared based on the Consolidated Financial Statements, after making such adjustments as are appropriate.

### **Directors’ Responsibility for the Financial Information**

The Directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

### **Reporting Accountant’s Responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### **Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2011, 2012 and 2013 and of the Group’s results and cash flows for the Relevant Periods then ended.

## I FINANCIAL INFORMATION OF THE GROUP

The following financial information of the Group (“Financial Information”) was prepared by Directors of the Company as at 31 December 2011, 2012 and 2013, and for each of the years ended 31 December 2011, 2012 and 2013:

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December		
		2011	2012	2013
<b>Revenue</b>				
– Commission and fee income . . . . .	5	821,968	737,213	953,332
– Interest income . . . . .	6	133,974	142,798	286,656
– Net investment gains/(losses) . . . . .	7	(62,144)	321,356	158,627
		893,798	1,201,367	1,398,615
Other income and gains . . . . .	8	72,507	17,083	35,984
<b>Total revenue and other income . . . . .</b>		<b>966,305</b>	<b>1,218,450</b>	<b>1,434,599</b>
Commission and fee expenses . . . . .	9	(146,669)	(131,383)	(113,090)
Interest expenses . . . . .	10	(42,645)	(67,440)	(127,433)
Staff costs . . . . .	11	(338,384)	(440,490)	(516,725)
Depreciation and amortisation . . . . .	12	(66,911)	(57,793)	(67,116)
Other operating expenses . . . . .	13	(239,760)	(256,331)	(264,062)
Impairment reversal/(losses) . . . . .	14	5,088	(7,909)	(7,938)
<b>Total expenses . . . . .</b>		<b>(829,281)</b>	<b>(961,346)</b>	<b>(1,096,364)</b>
<b>Profit before income tax . . . . .</b>		<b>137,024</b>	<b>257,104</b>	<b>338,235</b>
Income tax expense . . . . .	15	(44,242)	(73,855)	(99,808)
<b>Profit for the year . . . . .</b>		<b>92,782</b>	<b>183,249</b>	<b>238,427</b>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December		
		2011	2012	2013
<b>Other comprehensive income</b>				
Items that may be reclassified to profit or loss:				
Available-for-sale financial assets				
– Changes in fair value . . . . .	37	(55,053)	(5,484)	(3,157)
– Income tax effect on changes in fair value. . .	37	13,764	1,370	788
– Reclassification adjustments for gains/(losses) included in the consolidated income statement, net . . . . .	37	(1,128)	28,678	15,274
<b>Other comprehensive income/(losses) for the year, net of tax. . . . .</b>		<b>(42,417)</b>	<b>24,564</b>	<b>12,905</b>
<b>Total comprehensive income . . . . .</b>		<b>50,365</b>	<b>207,813</b>	<b>251,332</b>
Profit attributable to:				
– Shareholders of the Company. . . . .		92,702	182,783	252,937
– Non-controlling interests. . . . .	16	80	466	(14,510)
		<b>92,782</b>	<b>183,249</b>	<b>238,427</b>
Total comprehensive income attributable to:				
– Shareholders of the Company. . . . .		50,285	207,347	265,842
– Non-controlling interests. . . . .		80	466	(14,510)
		<b>50,365</b>	<b>207,813</b>	<b>251,332</b>
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)				
<b>Basic/Diluted. . . . .</b>	17	<b>0.05</b>	<b>0.09</b>	<b>0.12</b>
<b>Dividends . . . . .</b>	18	<b>447,373</b>	<b>–</b>	<b>–</b>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*(All amounts in RMB'000 unless otherwise stated)*

	Notes	31 December 2011	31 December 2012	31 December 2013
<b>Assets</b>				
<b>Non-current assets</b>				
Property and equipment . . . . .	19	252,565	242,040	225,808
Investment properties . . . . .	20	26,558	30,290	30,819
Goodwill . . . . .	21	7,269	7,269	7,269
Intangible assets . . . . .	22	26,372	32,394	46,805
Other non-current assets . . . . .	24	59,216	52,414	37,881
Available-for-sale financial assets . . . . .	25	56,102	89,092	40,096
Deferred income tax assets . . . . .	26	47,289	57,076	71,237
Refundable deposits . . . . .	27	199,694	272,743	412,988
<b>Total non-current assets . . . . .</b>		<b>675,065</b>	<b>783,318</b>	<b>872,903</b>
<b>Current assets</b>				
Other current assets . . . . .	28	183,172	198,900	256,074
Margin accounts receivable . . . . .	29	–	210,817	2,259,463
Available-for-sale financial assets . . . . .	25	373,166	82,826	391,074
Financial assets held under resale agreements . . . . .	30	860,000	498,350	793,086
Derivative financial assets . . . . .	31	–	–	–
Financial assets held for trading . . . . .	32	3,358,049	3,399,539	3,438,994
Clearing settlement funds . . . . .	33	511,729	662,316	1,104,844
Cash held for brokerage clients . . . . .	34	4,593,042	4,369,765	3,962,749
Cash and bank balances . . . . .	35	433,097	997,653	570,418
<b>Total current assets . . . . .</b>		<b>10,312,255</b>	<b>10,420,166</b>	<b>12,776,702</b>
<b>Total assets . . . . .</b>		<b>10,987,320</b>	<b>11,203,484</b>	<b>13,649,605</b>
<b>Equity and liabilities</b>				
<b>Equity attributable to shareholders of the Company</b>				
Share capital . . . . .	36	2,033,516	2,033,516	2,033,516
Reserves . . . . .	37	764,031	842,817	936,200
Retained earnings . . . . .		820,606	949,167	1,121,626
<b>Total equity attributable to shareholders of the Company . . . . .</b>		<b>3,618,153</b>	<b>3,825,500</b>	<b>4,091,342</b>
Non-controlling interests . . . . .		8,691	13,157	83,940
<b>Total equity . . . . .</b>		<b>3,626,844</b>	<b>3,838,657</b>	<b>4,175,282</b>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

	<i>Notes</i>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred income tax liabilities . . . . .	26	–	2,754	252
<b>Total non-current liabilities . . . . .</b>		<b>–</b>	<b>2,754</b>	<b>252</b>
<b>Current liabilities</b>				
Other current liabilities . . . . .	39	161,224	254,731	388,322
Financial liabilities designated at fair value through profit or loss . . . . .	40	–	–	707,437
Tax payable . . . . .	41	45,546	139,869	87,953
Due to other financial institutions . . . . .	42	–	–	400,000
Financial assets sold under repurchase agreements . .	43	1,903,940	1,758,905	2,096,288
Short-term notes payable . . . . .	44	–	–	800,000
Derivative financial liabilities . . . . .	31	–	–	–
Accounts payable to brokerage clients . . . . .	45	5,249,766	5,208,568	4,994,071
<b>Total current liabilities . . . . .</b>		<b>7,360,476</b>	<b>7,362,073</b>	<b>9,474,071</b>
<b>Total liabilities . . . . .</b>		<b>7,360,476</b>	<b>7,364,827</b>	<b>9,474,323</b>
<b>Total equity and liabilities . . . . .</b>		<b>10,987,320</b>	<b>11,203,484</b>	<b>13,649,605</b>
<b>Net current assets . . . . .</b>		<b>2,951,779</b>	<b>3,058,093</b>	<b>3,302,631</b>
<b>Total assets less current liabilities . . . . .</b>		<b>3,626,844</b>	<b>3,841,411</b>	<b>4,175,534</b>

## STATEMENTS OF FINANCIAL POSITION

(All amounts in RMB'000 unless otherwise stated)

	<i>Notes</i>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
<b>Assets</b>				
<b>Non-current assets</b>				
Property and equipment . . . . .	19	242,310	230,511	213,672
Investment properties . . . . .	20	34,631	39,151	38,459
Intangible assets . . . . .	22	24,611	30,680	35,884
Investments in subsidiaries . . . . .	23	109,562	309,562	411,562
Other non-current assets . . . . .	24	58,684	51,575	36,434
Available-for-sale financial assets . . . . .	25	54,702	67,692	66,384
Deferred income tax assets . . . . .	26	47,033	56,061	70,381
Refundable deposits . . . . .	27	109,952	107,863	198,672
<b>Total non-current assets . . . . .</b>		<b>681,485</b>	<b>893,095</b>	<b>1,071,448</b>
<b>Current assets</b>				
Other current assets . . . . .	28	211,060	203,409	246,593
Margin accounts receivable . . . . .	29	–	210,817	2,259,463
Available-for-sale financial assets . . . . .	25	373,166	82,826	108,421
Financial assets held under resale agreements . . . . .	30	860,000	498,350	625,986
Derivative financial assets . . . . .	31	–	–	–
Financial assets held for trading . . . . .	32	3,358,049	3,399,539	3,025,422
Clearing settlement funds . . . . .	33	422,761	509,977	994,425
Cash held for brokerage clients . . . . .	34	4,498,967	4,259,042	3,715,944
Cash and bank balances . . . . .	35	322,262	718,118	296,295
<b>Total current assets . . . . .</b>		<b>10,046,265</b>	<b>9,882,078</b>	<b>11,272,549</b>
<b>Total assets . . . . .</b>		<b>10,727,750</b>	<b>10,775,173</b>	<b>12,343,997</b>
<b>Equity and liabilities</b>				
Share capital . . . . .	36	2,033,516	2,033,516	2,033,516
Reserves . . . . .	37	764,031	842,817	930,983
Retained earnings . . . . .		843,878	970,389	1,158,171
<b>Total equity . . . . .</b>		<b>3,641,425</b>	<b>3,846,722</b>	<b>4,122,670</b>



## STATEMENTS OF FINANCIAL POSITION (CONTINUED)

*(All amounts in RMB'000 unless otherwise stated)*

	<i>Notes</i>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred income tax liabilities . . . . .	26	–	2,754	252
Other non-current liabilities . . . . .	38	–	–	25,300
<b>Total non-current liabilities . . . . .</b>		<b>–</b>	<b>2,754</b>	<b>25,552</b>
<b>Current liabilities</b>				
Other current liabilities . . . . .	39	153,592	240,786	355,245
Tax payable . . . . .	41	44,388	137,717	84,854
Due to other financial institutions . . . . .	42	–	–	400,000
Financial assets sold under repurchase agreements . .	43	1,903,940	1,758,905	2,096,288
Short-term notes payable . . . . .	44	–	–	800,000
Derivative financial liabilities . . . . .	31	–	–	–
Accounts payable to brokerage clients . . . . .	45	4,984,405	4,788,289	4,459,388
<b>Total current liabilities . . . . .</b>		<b>7,086,325</b>	<b>6,925,697</b>	<b>8,195,775</b>
<b>Total liabilities . . . . .</b>		<b>7,086,325</b>	<b>6,928,451</b>	<b>8,221,327</b>
<b>Total equity and liabilities . . . . .</b>		<b>10,727,750</b>	<b>10,775,173</b>	<b>12,343,997</b>
<b>Net current assets . . . . .</b>		<b>2,959,940</b>	<b>2,956,381</b>	<b>3,076,774</b>
<b>Total assets less current liabilities . . . . .</b>		<b>3,641,425</b>	<b>3,849,476</b>	<b>4,148,222</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company							Total equity
	Share capital	Surplus reserve	General reserve	Transaction risk reserve	Available-for-sale financial assets revaluation reserve	Retained earnings	Non-controlling interests	
	(Note 36)	(Note 37)	(Note 37)	(Note 37)	(Note 37)			
<b>Balance at 1 January 2011</b>	2,033,516	260,144	260,144	255,390	1,367	1,204,680	8,611	4,023,852
Profit for the year	-	-	-	-	-	92,702	80	92,782
Other comprehensive income for the year (Note 37)	-	-	-	-	(42,417)	-	-	(42,417)
<b>Total comprehensive income for the year</b>	-	-	-	-	(42,417)	92,702	80	50,365
Dividends recognised as distribution	-	-	-	-	-	(447,373)	-	(447,373)
Appropriation to surplus reserve	-	9,801	-	-	-	(9,801)	-	-
Appropriation to general reserve	-	-	9,801	-	-	(9,801)	-	-
Appropriation to transaction risk reserve	-	-	-	9,801	-	(9,801)	-	-
<b>Balance at 31 December 2011</b>	<u>2,033,516</u>	<u>269,945</u>	<u>269,945</u>	<u>265,191</u>	<u>(41,050)</u>	<u>820,606</u>	<u>8,691</u>	<u>3,626,844</u>
<b>Balance at 1 January 2012</b>	2,033,516	269,945	269,945	265,191	(41,050)	820,606	8,691	3,626,844
Profit for the year	-	-	-	-	-	182,783	466	183,249
Other comprehensive income for the year (Note 37)	-	-	-	-	24,564	-	-	24,564
<b>Total comprehensive income for the year</b>	-	-	-	-	24,564	182,783	466	207,813
Capital contribution for subsidiaries by non-controlling shareholders	-	-	-	-	-	-	4,000	4,000
Appropriation to surplus reserve	-	18,074	-	-	-	(18,074)	-	-
Appropriation to general reserve	-	-	18,074	-	-	(18,074)	-	-
Appropriation to transaction risk reserve	-	-	-	18,074	-	(18,074)	-	-
<b>Balance at 31 December 2012</b>	<u>2,033,516</u>	<u>288,019</u>	<u>288,019</u>	<u>283,265</u>	<u>(16,486)</u>	<u>949,167</u>	<u>13,157</u>	<u>3,838,657</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company							Total equity
	Share capital	Surplus reserve	General reserve	Transaction risk reserve	Available-for-sale financial assets revaluation reserve	Retained earnings	Non-controlling interests	
	(Note 36)	(Note 37)	(Note 37)	(Note 37)	(Note 37)			
<b>Balance at 1 January 2013</b> . . . . .	2,033,516	288,019	288,019	283,265	(16,486)	949,167	13,157	3,838,657
Profit/(Loss) for the year . . . . .	-	-	-	-	-	252,937	(14,510)	238,427
Other comprehensive income for the year (Note 37) . . . . .	-	-	-	-	12,905	-	-	12,905
<b>Total comprehensive income for the year</b> . . . . .	-	-	-	-	12,905	252,937	(14,510)	251,332
Dividends distributed by subsidiaries to non-controlling interests . . . . .	-	-	-	-	-	-	(167)	(167)
Net capital contribution for subsidiaries by non-controlling shareholders . . . . .	-	-	-	-	-	-	85,460	85,460
Appropriation to surplus reserve . . . . .	-	26,826	-	-	-	(26,826)	-	-
Appropriation to general reserve . . . . .	-	-	26,826	-	-	(26,826)	-	-
Appropriation to transaction risk reserve . . . . .	-	-	-	26,826	-	(26,826)	-	-
<b>Balance at 31 December 2013</b> . . . . .	<u>2,033,516</u>	<u>314,845</u>	<u>314,845</u>	<u>310,091</u>	<u>(3,581)</u>	<u>1,121,626</u>	<u>83,940</u>	<u>4,175,282</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(All amounts in RMB'000 unless otherwise stated)*

	Year ended 31 December		
	2011	2012	2013
<b>Cash flows from operating activities</b>			
<b>Profit before income tax</b> . . . . .	137,024	257,104	338,235
Adjustments for:			
Depreciation and amortisation . . . . .	66,911	57,793	67,116
Impairment losses/(reversal) . . . . .	(5,088)	7,909	7,938
Net (gains)/losses on disposal of property and equipment and other intangible assets . . . . .	(35,389)	352	(506)
Foreign exchange losses . . . . .	404	18	1,529
Net gains on disposal of available-for-sale financial assets . . . . .	(47,683)	(68,981)	(8,071)
Dividends and interest income from available-for-sale financial assets . . . . .	(2,857)	(2,689)	(7,629)
Changes in fair value of financial instruments at fair value through profit or loss . . . . .	100,441	(19,076)	37,291
	<u>213,763</u>	<u>232,430</u>	<u>435,903</u>
<b>Net decrease/(increase) in operating assets:</b>			
Net increase in margin accounts receivable . . . . .	–	(210,817)	(2,048,646)
Net increase in financial assets held for trading . . . . .	(1,893,378)	(22,414)	(50,425)
Net (increase)/decrease in financial assets held under resale agreements . . . . .	(860,000)	361,650	(294,736)
Net decrease/(increase) in refundable deposits . . . . .	33,156	(73,049)	(140,245)
Net decrease in cash held for brokerage clients . . . . .	1,176,960	223,277	407,016
Net decrease/(increase) in clearing settlement funds . . . . .	2,574,712	(124,204)	(298,177)
Net increase in other assets . . . . .	(97,623)	(14,807)	97,138
<b>Net (decrease)/increase in operating liabilities:</b>			
Net decrease in accounts payable to brokerage customers . . . . .	(3,805,868)	(41,198)	(214,497)
Net increase in financial liabilities designated at fair value through profit or loss . . . . .	–	–	754,839
Net increase/(decrease) in financial assets sold under repurchase agreements . . . . .	1,713,940	(145,035)	337,383
Net increase in due to other financial institutions . . . . .	–	–	400,000
Net (decrease)/increase in other liabilities . . . . .	(98,953)	197,210	(243,999)
Income tax paid . . . . .	(74,079)	(90,195)	(113,396)
<b>Net cash inflow/(outflow) from operating activities</b> . . . . .	<u>(1,117,370)</u>	<u>292,848</u>	<u>(971,842)</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December		
	2011	2012	2013
<b>Cash flows from investing activities</b>			
Dividends and interest received from available-for-sale financial assets . . . . .	2,857	2,689	7,629
Proceeds on disposal of property and equipment, intangible assets and other long-term assets . . . . .	92,203	531	946
Purchase of property and equipment, intangible assets and other long-term assets . . . . .	(70,769)	(63,856)	(165,864)
Cash paid for purchase of available-for-sale financial assets. . . . .	(746,555)	(518,530)	(1,424,976)
Cash received from disposal of available-for-sale financial assets. . . . .	566,940	871,313	1,355,378
<b>Net cash inflow/(outflow) from investing activities . . . . .</b>	<b>(155,324)</b>	<b>292,147</b>	<b>(226,887)</b>
<b>Cash flows from financing activities</b>			
Dividends paid . . . . .	(447,373)	–	–
Capital injection of subsidiaries from non-controlling shareholders . . . . .	–	4,000	122,500
Cash received from issuance of short-term notes . . . . .	–	–	800,000
<b>Net cash inflow/(outflow) from financing activities . . . . .</b>	<b>(447,373)</b>	<b>4,000</b>	<b>922,500</b>
<b>Net increase/(decrease) in cash and cash equivalents. . . . .</b>	<b>(1,720,067)</b>	<b>588,995</b>	<b>(276,229)</b>
<b>Cash and cash equivalents at the beginning of the year. . . . .</b>	<b>2,164,704</b>	<b>444,233</b>	<b>1,033,210</b>
<b>Effect of exchange rate changes on cash and cash equivalents. . . . .</b>	<b>(404)</b>	<b>(18)</b>	<b>(1,529)</b>
<b>Cash and cash equivalents at the end of the year (Note 46) . . . . .</b>	<b>444,233</b>	<b>1,033,210</b>	<b>755,452</b>

## II NOTES TO THE FINANCIAL INFORMATION

### 1 GENERAL INFORMATION

Central China Securities Co., Ltd. (the "Company") is a joint-stock financial institution incorporated in Henan Province, the People's Republic of China (the "PRC"). The Company was incorporated on 8 November 2002, pursuant to the approvals by China Securities Regulatory Commission (the "CSRC") and the People's Government of Henan Province (the "Henan government"). The Company completed the relevant registration with Henan Provincial Administration of Industry and Commerce (the "HAIC") on 8 November 2002. The CSRC and the HAIC have granted the securities institution license No. Z30574000 and business licence No. 410000100009831 to the Company, respectively. The registered address of the Company is No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province. As at 31 December 2013, the registered capital of the Company is RMB2,033,515,700.

The Company and its subsidiaries (the "Group") principally engage in the business set out on the Company's business license, which includes:

securities and futures brokerage, investment consultancy and financial advisory, securities underwriting and sponsorship, proprietary trading, asset management, fund management and direct investment, agency sale of funds, introducing broker for futures companies, margin financing and securities lending and agency sale of financial products.

### 2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with the International Financial Reporting Standards ("IFRS"), disclosure requirements of the Hong Kong Companies Ordinance and the Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited.

The Financial Information have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss (including derivative instruments).

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.2.

#### 2.1 Transition to IFRS

This is the Group's first set of Financial Information prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the Financial Information for the years ended 31 December 2011, 2012 and 2013, and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the Accounting Standards for Business Enterprises of the PRC ("CAS").

The Group's first-time adoption did not have an impact on equity as at 1 January 2011, 31 December 2011 and 31 December 2012, and earnings and comprehensive income for the years ended 31 December 2011 and 2012.

The following tables represent the reconciliations from CAS to IFRS for the year ended 31 December 2013 noted for equity, earnings and comprehensive income.

	Under CAS	Consolidation of structured entities under IFRS 10 <sup>(1)</sup>	Under IFRS
Profit for the year . . . . .	246,082	(7,655)	238,427
Total comprehensive income . . . . .	253,436	(2,104)	251,332
Total assets . . . . .	12,945,914	703,691	13,649,605
Total liabilities . . . . .	8,792,860	681,463	9,474,323
Total equity . . . . .	4,153,054	22,228	4,175,282

The following tables represent the reconciliations from CAS to IFRS for the years ended 31 December 2011, 2012 and 2013 noted for statement of cash flows:

*Year ended 31 December 2011*

	<u>Under CAS</u>	<u>Scope difference of cash and cash equivalents<sup>(2)</sup></u>	<u>Under IFRS</u>
Net cash outflow from operating activities . . . . .	(4,869,040)	3,751,670	(1,117,370)
Cash and cash equivalents at the beginning of the year . . . . .	11,006,845	(8,842,141)	2,164,704
Cash and cash equivalents at the end of the year . . .	5,534,704	(5,090,471)	444,233

*Year ended 31 December 2012*

	<u>Under CAS</u>	<u>Scope difference of cash and cash equivalents<sup>(2)</sup></u>	<u>Under IFRS</u>
Net cash inflow from operating activities . . . . .	193,775	99,073	292,848
Cash and cash equivalents at the beginning of the year . . . . .	5,534,704	(5,090,471)	444,233
Cash and cash equivalents at the end of the year . . .	6,024,608	(4,991,398)	1,033,210

*Year ended 31 December 2013*

	<u>Under CAS</u>	<u>Scope difference of cash and cash equivalents<sup>(2)</sup></u>	<u>Consolidation under IFRS 10<sup>(1)</sup></u>	<u>Under IFRS</u>
Net cash outflow from operating activities . . . . .	(993,914)	108,839	(86,767)	(971,842)
Net cash outflow from investing activities . . . . .	(304,334)	–	77,447	(226,887)
Net cash inflow from financing activities . . . . .	898,000	–	24,500	922,500
Cash and cash equivalents at the beginning of the year . . . . .	6,024,608	(4,991,398)	–	1,033,210
Cash and cash equivalents at the end of the year . . . . .	5,622,831	(4,882,559)	15,180	755,452

<sup>(1)</sup> IFRS 10, “Consolidated financial statements”, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It is effective from 1 January 2013. The Group adopted IFRS 10 from year 2013 and consistently applied it to the Relevant Periods for the purpose of preparing the Financial Information. However, the corresponding standard under CAS has not been effective and hence a GAAP difference has been formed.

<sup>(2)</sup> Under CAS cash held for brokerage clients and clients’ clearing settlement funds are included in cash and cash equivalents, which are excluded from cash and cash equivalents under IFRS.



## 2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

Standards, amendments and interpretations that have been issued and are relevant to the Group, but are not effective and have not been early adopted by the Group for the year ended 31 December 2013 are as follows:

Topic	Key requirements	Effective date
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting	These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities	These amendments mean that many funds and similar entities will be exempted from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014
Financial Instruments: Recognition and Measurement Amendment to IAS 39 'Novation of derivatives'	This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.	1 January 2014
IFRIC 21, 'Levies'	This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.	1 January 2014

Topic	Key requirements	Effective date
IFRS 9, 'Financial instruments'	<p data-bbox="699 244 1139 300">IFRS 9 is the first standard issued as part of a wider project to replace IAS 39.</p> <p data-bbox="699 327 1166 783">IFRS 9 "Classification and Measurement" retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in other comprehensive income ("OCI"), unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss.</p> <p data-bbox="699 810 1177 995">IFRS "Hedge Accounting" applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.</p> <p data-bbox="699 1023 1094 1076">The guidance in IAS 39 on impairment of financial assets continues to apply.</p>	Left open pending the finalisation of the requirements

The Group is in the process of assessing the impact of these new standards and amendments on the Financial Information.

The principal accounting policies adopted in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods unless otherwise stated.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES****3.1 Summary of significant accounting policies****3.1.1 Accounting year**

The Group's accounting year starts on 1 January and ends on 31 December.

**3.1.2 Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi (RMB), which is the Company's functional and the Group's presentation currency.

**3.1.3 Consolidation**

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group.

Inter-company transactions, balances and unrealised profits on transactions between group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognised as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. The Company assesses at each financial reporting date whether there is objective evidence that investments in subsidiaries are impaired. An impairment loss is recognised for the amount by which the investments in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investments in subsidiaries' fair value less costs to sell and value in use.

**3.1.4 Foreign currency translation**

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognised in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

**3.1.5 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 3.1.6 *Financial instruments*

#### (1) *Recognition and de-recognition of financial instruments*

A financial asset or financial liability is recognised on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when one of the following conditions is met: (1) the contractual rights to receive cash flows from the investments have expired; (2) when the Group has transferred substantially all risks and rewards of ownership; (3) when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognised in equity is recognised in profit or loss.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in profit or loss.

#### (2) *Classification and measurement*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification of financial assets depends on the Group's intention and ability to hold the financial assets. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

##### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss through net investment gains in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss.

Equity securities, funds and debt securities purchased for the purpose of selling in the near term are classified as financial assets held for trading. A financial asset held for trading is measured at fair value upon initial recognition with transaction expenses recorded in profit or loss for the current period. Cash dividends declared but not received or bond interests are recognised as receivables. Interest and dividends accrued during the holding period are recognised as investment gains.

##### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including margin accounts receivable, accounts receivable, other receivables, financial assets held under resale agreements, refundable deposits, and clearing settlement funds. Loans and receivables are recognised initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortised cost using effective interest rate method.

##### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognised at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, and ultimately in the equity, until the financial assets are de-recognised at which time the cumulative gains or losses previously recognised in equity should be reclassified from equity to profit or loss. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognised in profit or loss.

(d) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss have two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee).

Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss through net investment gains/losses. The part of a fair value change due to the Group's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

(e) Other financial liabilities

Other financial liabilities are initially recognised at fair value less transaction costs, and are subsequently measured at amortised cost using the effective interest method.

(3) *Determination of fair value*

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The Group utilises the latest market price for both financial assets and financial liabilities where the latest price falls within the bid-ask spread. In circumstances where the latest market price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that substantially the same, and discounted cash flow analysis, among others. In applying valuation techniques to measure fair value, the Group maximises the use of observable market inputs and minimises the use of inputs that are specific to the Group.

If the quoted market price is not available and the fair value cannot be reliably measured, a financial asset is measured at cost.

(4) *Derivative financial instruments*

The Group's derivatives are stock index futures contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(5) *Margin financing and securities lending services*

Margin financing and securities lending services refer 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. Margin financing and securities lending services are classified as margin financing and securities lending, respectively.

The Group recognises margin financing receivables as loans and receivables, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using effective interest rate method.

(6) *Resale and repurchase agreements*

Assets purchased under agreements to resell at a specified future date are not recognised on the statement of financial position at time of acquisition. The corresponding cash paid is recognised on the statement of financial position as “financial assets held under resale agreements”. Conversely, assets sold under agreements to repurchase at a specified future date with a specific price are not derecognised. The corresponding cash received is recognised on the statement of financial position as “financial assets sold under repurchase agreements”.

The differences between the purchase and resale prices and sale and repurchase prices are recognised as interest income and interest expense respectively and are accrued over the term of the agreement using the effective interest rate method.

(7) *Impairment of financial assets*

Except for financial assets held for trading and financial assets at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. The Group assesses the fair value of available-for-sale equity instruments individually at statement of financial position date and determines that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost. When the fair value of an available-for-sale financial asset has declined for more than one year, and the Group concludes this decline is prolonged based on professional judgement of the management, the Group recognises impairment losses in profit or loss. For available-for-sale 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 recognised in profit or loss.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the consolidated income statement; increases in their fair value subsequent to impairment are recognised as other comprehensive income.

(8) *Offsetting financial instruments*

Financial assets and financial liabilities are separately presented in the statement of financial position without any offsetting, except when:

- (i) the Group has a legally enforceable right to offset the recognised amounts; and
- (ii) the Group has intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**3.1.7 *Asset management business***

The Group's asset management business comprises targeted asset management and collective asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

When the Group is considered as an agent for targeted asset management business, the related assets are not recognised in the statement of financial position. The fees received are recognised as commission and fee income.

For collective asset management schemes where the Group manages with power and/or holds direct investments, the Group further assesses whether its exposure to the variable returns from the activities of the collective asset management schemes is of such magnitude and variability that indicates the Group is a principal. The collective asset management schemes shall be consolidated when the Group is concluded as acting in the role of principal. When the Group acts in the role of an agent of other investors, it recognises the related commission and fee income from the collective asset management schemes in its statement of comprehensive income, and its direct investments as available-for-sale financial assets.

**3.1.8 *Property and equipment***

The Group's property and equipment are buildings, motor vehicles, electronic and other equipment that are used for operation purpose and have useful lives of more than one year.

Property and equipment shall be recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other subsequent expenditures are recognised in profit or loss during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.



The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of property and equipment from 1 January 2011 to 31 August 2011 are as follows:

	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Annual depreciation rates</u>
Buildings . . . . .	20~35 years	5%	2.71%~4.75%
Motor vehicles . . . . .	8 years	5%	11.88%
Electronics and other equipment . . . . .	3-15 years	5%	6.33%~31.67%

To enhance the management of property and equipment, the Group reassessed the estimated useful lives of property and equipment. Approved by the sixth Board meeting in 2011, the Group changed the estimated useful lives of electronics equipment from three years to five years, and the estimated useful lives of business buildings from thirty years to forty years. The new estimated useful lives are listed as below, which are effective since 1 September 2011.

	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Annual depreciation rates</u>
Buildings . . . . .	20~40 years	5%	2.38%~4.75%
Motor vehicles . . . . .	8 years	5%	11.88%
Electronics and other equipment . . . . .	5-15 years	5%	6.33%~19.00%

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Group at the end of each reporting period.

Property and equipment are de-recognised on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of their carrying amounts and related taxes and expenses is recognised in the profit or loss. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.13).

### 3.1.9 Investment properties

Property held to earn rentals that is not occupied by the Group is classified as investment property. Investment properties comprises land and buildings.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the items. Subsequent to initial recognition, the Group adopts the cost model to account for its investment properties. The estimated useful lives, depreciation rate and estimated residual value rate of investment properties are as follows:

<u>Type of assets</u>	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Annual depreciation rate</u>
Buildings leased . . . . .	30~40 years	5%	2.38%~3.17%

Investment properties are reviewed for impairment at each statement of financial position date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

### 3.1.10 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition.

### ***3.1.11 Intangible assets***

Intangible assets mainly include computer software and trading rights, which are measured at cost and amortised on a straight-line basis over their estimated useful lives. For an intangible asset with a definite useful life, review of its useful life and amortisation method is performed at each year end, with adjustment made as appropriate.

Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.13).

### ***3.1.12 Long-term deferred expenses***

Long-term deferred expenses include leasehold improvements and expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred expenses are amortised on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortisation.

### ***3.1.13 Impairment of long-term non-financial assets***

Fixed assets, intangible assets with definite useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognised in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets that have an indefinite useful life – for example, goodwill or intangible assets with indefinite useful life that are not subject to amortisation are tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

### ***3.1.14 Employee benefits***

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social security schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes, which are all defined contribution plans. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labour and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. The Group has no further payment obligations once the contributions have been paid. Contributions are recognised in the profit or loss for the current period.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date. Under the plan, the participants who voluntarily leave the position before reaching the regulatory retirement age will receive benefit package upon approval from the management of the Group. The Group recognises early retirement benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of early retirement benefits. The Group has recorded a liability for its obligation to employees retired before normal retirement age, which is the present value of the Group's future payment obligation, calculated by discounting the expected cash outflow based on the treasury bond interest rate for the term similar to that of the liability.

**3.1.15 Revenue recognition***(1) Commission and fee income*

- (a) Revenue from the securities and futures brokerage services is recognised on the date of the transaction;
- (b) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (c) Consultancy and advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered;
- (d) Fee revenue from asset management services is recognised according to the provisions of the asset management contract.

*(2) Interest income is recognised by using the effective interest method.*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

**3.1.16 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

**3.1.17 Deferred income tax assets and liabilities**

Deferred income tax assets and liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. As at the statement of financial position date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred income tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale financial assets is charged or credited directly to equity and is subsequently transferred to profit or loss when the financial assets are de-recognised.

Deferred income tax assets and liabilities are offset when:

- (a) the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority;
- (b) there is a legally enforceable right to offset current tax assets against current tax liabilities.

**3.1.18 Leases**

Leases of assets where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

### **3.1.19 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

### **3.1.20 Provisions**

Provisions for matters such as legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### **3.1.21 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### **3.1.22 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

## **3.2 Summary of significant accounting estimates**

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

### **3.2.1 Impairment of available-for-sale financial assets**

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

### **3.2.2 Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

### **3.2.3 Fair value of financial instruments**

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

### 3.2.4 Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

### 3.2.5 Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

As of the end of the Relevant Periods, the Group assessed and concluded that the following structured entities are controlled by the Company and should be included for consolidation in due course:

“Yanhuang No. 1” Asset Management Scheme: This is a collective asset management scheme issued by the Group in May 2011. The Group manages this scheme, and also holds 5% in the scheme at the date of issuance. The Group cannot withdraw from the scheme and has an obligation, upon maturity and up to the amount of its share of the net book value of the scheme, to compensate certain losses of the investors who joined in the initial subscription period. The Group collects management fee at 0.8% based on the net book value of the scheme with a performance reward of 20%. The other investors cannot remove the Group from its role of asset manager without course. In May 2013, the Group adjusted the investment strategy of this scheme and, based on management judgement, it became more likely that the Group has to compensate the losses of the investors. In addition, due to early withdrawal of investors, the Group's interests in the scheme increased. Having reassessed the combination of the three elements listed above, the Group concluded that it had turned into a principal of the scheme since that point of time.

“Yanhuang No. 2” Asset Management Scheme: This is a collective asset management scheme issued by the Group in October 2012. The Group manages this scheme, and also holds 3% in the scheme at the date of issuance. The Group cannot withdraw from the scheme. The Group collects management fee at 1.2% based on the net book value of the scheme and a performance reward of 20%. The other investors cannot remove the Group from its role of asset manager without course. As the Group's exposure to the variable return is not significant, it was concluded that the Group was acting more as an agent of other investors upon issuance. Up to April 2013, due to significant early withdrawal of other investors, the Group's interests in the scheme increased to more than 20%. Having reassessed the combination of the three elements listed above, the Group concluded that it had turned into a principal since that point of time.

“Lianmeng No. 6” Asset Management Scheme and “Quantitative Dynamic Multi-strategies Alpha Phase I” Asset Management Scheme: The Group manages these schemes, and also holds interests of above 20% in each of these schemes. The Group collects management fee at a certain percentage based on the schemes' net book value. Having assessed the combination of the three elements listed above, the Group concluded that it has been the principal since the date of issuance.

## 4 TAXATION

The principal taxes to which the Group is subject are listed below:

	<u>Tax basis</u>	<u>Tax rate</u>
Corporate income tax . . . . .	Taxable profit	25%
Business tax . . . . .	Taxable operating income	5%
City construction and maintenance tax . . . . .	Business tax paid	7%
Educational surcharges . . . . .	Business tax paid	3%

### 4.1 Corporate income tax

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Policies relating to the Pre-tax Deduction of Contributions to Reserves of Securities Companies (《財政部、國家稅務總局關於證券行業準備金支出企業所得稅稅前扣除有關政策問題的通知》) (Caishui [2012] No. 11), the contributions securities companies pay to the securities investors protection fund are deductible from their taxable profit to the extent allowable as specified in the administrative rules depending on the balance of the fund.

### 4.2 Business tax

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Business Tax of the Securities Investor Protection Fund (《財政部、國家稅務總局關於證券投資者保護基金有關營業稅問題的通知》) (Caishui [2006] No. 172), securities companies are allowed to deduct their investor protection fund contributions from their taxable business income.

## 5 COMMISSION AND FEE INCOME

	Year ended 31 December		
	2011	2012	2013
Securities brokerage . . . . .	704,576	466,859	661,114
Futures brokerage . . . . .	27,339	38,930	52,892
Underwriting and sponsorship . . . . .	47,720	123,503	152,966
Financial advisory . . . . .	26,750	70,633	11,990
Investment advisory . . . . .	9,689	29,862	62,564
Asset management and fund management . . . . .	5,894	7,426	11,806
Total . . . . .	<u>821,968</u>	<u>737,213</u>	<u>953,332</u>

## 6 INTEREST INCOME

	Year ended 31 December		
	2011	2012	2013
Interest income from bank deposits . . . . .	125,647	133,775	140,326
Interest income from financial assets held under resale agreements . . . . .	8,327	4,705	26,308
Interest income from margin financing and securities lending . . . . .	–	4,261	115,728
Others . . . . .	–	57	4,294
Total . . . . .	<u>133,974</u>	<u>142,798</u>	<u>286,656</u>

## 7 NET INVESTMENT GAINS/(LOSSES)

	Year ended 31 December		
	2011	2012	2013
Realised gain from disposal of available-for-sale financial assets . . . . .	47,683	68,981	8,071
Dividends and interest income from available-for-sale financial assets . . . . .	2,857	2,689	7,629
Recycling of available-for-sale financial assets reserve upon consolidation of structured entities . . . . .	–	–	(7,412)
Realised gain/(losses) from disposal from financial assets held for trading . . . . .	(125,553)	31,575	19,152
Dividends and interest income from financial assets held for trading . . . . .	113,310	188,396	180,173
Net realised gains/(losses) from derivative financial instruments . . . . .	–	10,639	(11,695)
Unrealised fair value change of financial instruments at fair value through profit or loss			
– Financial assets held for trading . . . . .	(100,441)	28,943	(21,842)
– Derivative financial instruments . . . . .	–	(9,867)	10,872
– Financial liabilities designated at fair value through profit or loss <sup>(1)</sup> . . . . .	–	–	(26,321)
Total . . . . .	<u>(62,144)</u>	<u>321,356</u>	<u>158,627</u>

<sup>(1)</sup> The accrual for the obligation to compensate losses of “Yanhuang No. 1’s” investors to whom it is entitled is included in financial liabilities designated at fair value through profit or loss in the consolidated financial statements of the Group (Note 38).

## 8 OTHER INCOME AND GAINS

	Year ended 31 December		
	2011	2012	2013
Gains from disposal of other assets <sup>(1)</sup> . . . . .	35,660	–	–
Government grants <sup>(2)</sup> . . . . .	29,684	11,571	28,256
Rental income . . . . .	2,228	3,005	3,449
Others . . . . .	4,935	2,507	4,279
Total . . . . .	<u>72,507</u>	<u>17,083</u>	<u>35,984</u>

<sup>(1)</sup> The Company recognised a gain of RMB35,660,000 from disposal of certain foreclosed properties in 2011 (Note 49.2.3 Related party transactions).

<sup>(2)</sup> This item consists of tax reward and other grants from local governments.

## 9 COMMISSION AND FEE EXPENSES

	Year ended 31 December		
	2011	2012	2013
Securities brokerage . . . . .	125,702	83,515	93,427
Underwriting and sponsorship . . . . .	11,094	7,458	13,536
Financial advisory . . . . .	3,821	34,644	2,807
Asset and fund management . . . . .	6,052	5,766	3,320
Total . . . . .	<u>146,669</u>	<u>131,383</u>	<u>113,090</u>

## 10 INTEREST EXPENSES

	Year ended 31 December		
	2011	2012	2013
Interest expense of accounts payable to brokerage clients . . .	33,417	21,910	19,579
Interest expense of financial assets sold under repurchase agreements . . . . .	9,228	45,530	71,987
Interest expense of due to other financial institutions . . . . .	–	–	25,847
Interest expense of short-term notes . . . . .	–	–	10,020
Total . . . . .	<u>42,645</u>	<u>67,440</u>	<u>127,433</u>

## 11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION)

	Year ended 31 December		
	2011	2012	2013
Salaries and bonus . . . . .	212,657	312,657	382,432
Pension . . . . .	55,860	47,735	59,241
Other social security . . . . .	43,798	49,949	45,092
Labour union funds and employee education funds . . . . .	9,521	14,070	16,173
Other welfare . . . . .	16,548	16,079	13,787
Total . . . . .	<u>338,384</u>	<u>440,490</u>	<u>516,725</u>



## 11.1 The emoluments of the directors and supervisors

The emoluments of the directors and supervisors of the Company paid by the Group for each of the years ended 31 December 2011, 2012 and 2013 are set out below:

Year ended 31 December 2011					
Name	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	Total
<b>Executive Directors</b>					
Shi Baoshang . . . . .	–	506	43	590	1,139
Jian Mingjun (President) . . . . .	–	452	43	481	976
<b>Non-executive Directors</b>					
Song Chang . . . . .	126	–	–	–	126
Wang Jinian . . . . .	31	–	–	–	31
Lv Jizeng . . . . .	31	–	–	–	31
Li Xingjia . . . . .	31	–	–	–	31
Ma Baozhou . . . . .	31	–	–	–	31
Zhang Qingjiang <sup>(1)</sup> . . . . .	15	–	–	–	15
Zhou Dianhua <sup>(2)</sup> . . . . .	15	–	–	–	15
Li Fusheng . . . . .	31	–	–	–	31
Zhu Yijiang . . . . .	31	–	–	–	31
He Quanhong . . . . .	31	–	–	–	31
<b>Supervisors</b>					
Zhou Xiaoquan . . . . .	–	409	43	410	862
Zhao Lifeng . . . . .	–	1,118	43	658	1,819
Zhu Qiben . . . . .	–	242	43	124	409
Li Feng . . . . .	–	228	43	135	406
Yan Changkuan . . . . .	21	–	–	–	21
Zhao Qi . . . . .	21	–	–	–	21
Zheng Donghui . . . . .	21	–	–	–	21
Ji Guangyuan . . . . .	21	–	–	–	21
Zhang Hu . . . . .	21	–	–	–	21
<b>Total</b> . . . . .	<b>478</b>	<b>2,955</b>	<b>258</b>	<b>2,398</b>	<b>6,089</b>

Year ended 31 December 2012					
Name	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	Total
<b>Executive Directors</b>					
Jian Mingjun (President) <sup>(3)</sup> . . . . .	–	479	51	1,198	1,728
Zhou Xiaoquan (President) <sup>(4)</sup> . . . . .	–	203	18	285	506
Shi Baoshang <sup>(5)</sup> . . . . .	–	331	54	793	1,178
<b>Non-executive Directors</b>					
Song Chang . . . . .	129	–	–	–	129
Zhu Shanli <sup>(6)</sup> . . . . .	42	–	–	–	42
Yuan Dejun <sup>(7)</sup> . . . . .	42	–	–	–	42
Shi Dan <sup>(8)</sup> . . . . .	42	–	–	–	42
Wang Jinian . . . . .	31	–	–	–	31
Li Xingjia . . . . .	31	–	–	–	31
Zhu Yijiang . . . . .	31	–	–	–	31
Shi Lei <sup>(9)</sup> . . . . .	10	–	–	–	10
Zhang Qiang <sup>(10)</sup> . . . . .	10	–	–	–	10
Lv Jizeng <sup>(11)</sup> . . . . .	20	–	–	–	20
Ma Baozhou <sup>(12)</sup> . . . . .	20	–	–	–	20
Li Fusheng <sup>(13)</sup> . . . . .	20	–	–	–	20
He Quanhong <sup>(14)</sup> . . . . .	20	–	–	–	20
Zhang Qingjiang <sup>(15)</sup> . . . . .	15	–	–	–	15

## Year ended 31 December 2012

Name	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	Total
<b>Supervisors</b>					
Zhou Xiaoquan <sup>(16)</sup>	–	238	26	800	1,064
Zhou Jianzhong <sup>(17)</sup>	–	152	14	278	444
Zhao Lifeng <sup>(18)</sup>	–	646	21	1,103	1,770
Zhu Qiben	–	222	17	141	380
Li Feng	–	209	17	100	326
Yan Changkuan	21	–	–	–	21
Ji Guangyuan	21	–	–	–	21
Zhang Hu	21	–	–	–	21
Zhao Qi <sup>(19)</sup>	11	–	–	–	11
Zheng Donghui <sup>(20)</sup>	11	–	–	–	11
<b>Total</b>	<b>548</b>	<b>2,480</b>	<b>218</b>	<b>4,698</b>	<b>7,944</b>

## Year ended 31 December 2013

Name	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	Total
<b>Executive Directors</b>					
Jian Mingjun	–	498	51	1,047	1,596
Zhou Xiaoquan (President)	–	487	44	1,150	1,681
<b>Non-executive Directors</b>					
Song Chang	126	–	–	–	126
Zhu Shanli	126	–	–	–	126
Yuan Dejun	126	–	–	–	126
Shi Dan	126	–	–	–	126
Wang Jinian	31	–	–	–	31
Li Xingjia	31	–	–	–	31
Zhu Yijiang	31	–	–	–	31
Shi Lei	31	–	–	–	31
Zhang Qiang	31	–	–	–	31
<b>Supervisors</b>					
Zhou Jianzhong	–	367	33	834	1,234
Zhu Qiben	–	265	17	398	680
Li Feng	–	223	17	288	528
Yan Changkuan	21	–	–	–	21
Ji Guangyuan	21	–	–	–	21
Zhang Hu <sup>(21)</sup>	19	–	–	–	19
Wang Rui <sup>(22)</sup>	2	–	–	–	2
<b>Total</b>	<b>722</b>	<b>1,840</b>	<b>162</b>	<b>3,717</b>	<b>6,441</b>

(1) Zhang Qingjiang was elected to be non-executive director effective from June 2011.

(2) Zhou Dianhua ceased to be non-executive director effective from June 2011.

(3) Jian Mingjun ceased to be president effective from August 2012.

(4) Zhou Xiaoquan was elected to be executive director and president effective from August 2012.

(5) Shi Baoshang ceased to be executive director effective from August 2012.

(6) Zhu Shanli was elected to be non-executive director effective from August 2012.

(7) Yuan Dejun was elected to be non-executive director effective from August 2012.

- (8) Shi Dan was elected to be non-executive director effective from August 2012.
- (9) Shi Lei was elected to be non-executive director from August 2012.
- (10) Zhang Qiang was elected to be non-executive director effective from August 2012.
- (11) Lv Jizeng ceased to be non-executive director effective from August 2012.
- (12) Ma Baozhou ceased to be non-executive director effective from August 2012.
- (13) Li Fusheng ceased to be non-executive director effective from August 2012.
- (14) He Quanhong ceased to be non-executive director effective from August 2012.
- (15) Zhang Qingjiang ceased to be non-executive director effective from August 2012.
- (16) Zhou Xiaoquan ceased to be supervisor effective from August 2012.
- (17) Zhou Jianzhong was elected to be supervisor effective from August 2012.
- (18) Zhao Lifeng ceased to be supervisor effective from August 2012.
- (19) Zhao Qi ceased to be supervisor effective from June 2012.
- (20) Zheng Donghui ceased to be supervisor effective from June 2012.
- (21) Zhang Hu ceased to be supervisor effective from November 2013.
- (22) Wang Rui was elected to be supervisor effective from November 2013.

#### 11.2 The five highest paid individuals

For the years ended 31 December 2011 and 2012, the five highest paid individuals include one supervisor (Zhao Lifeng). For the year ended 31 December 2013, the five highest paid individuals do not include any of the directors and supervisors.

Details of the emoluments for the rest of the five highest paid individuals for the relevant years are as follows:

	Year ended 31 December		
	2011	2012	2013
Salaries, allowances and other welfares . . . . .	4,475	3,400	3,994
Pension plan contributions . . . . .	173	71	68
Discretionary bonus . . . . .	1,166	5,859	10,225
Total . . . . .	5,814	9,330	14,287

The emolument of the senior management and individuals by range:

	Year ended 31 December		
	2011	2012	2013
HK\$1,500,001 to HK\$2,000,000 . . . . .	4	–	–
HK\$2,000,001 to HK\$2,500,000 . . . . .	–	2	1
HK\$2,500,001 to HK\$3,000,000 . . . . .	–	–	1
HK\$3,000,001 to HK\$3,500,000 . . . . .	–	1	1
HK\$3,500,001 to HK\$4,000,000 . . . . .	–	1	–
HK\$4,000,001 to HK\$4,500,000 . . . . .	–	–	1
HK\$6,000,001 to HK\$6,500,000 . . . . .	–	–	1
	4	4	5

The Group has not provided any compensation to any of these directors, supervisors and the five highest paid individuals as incentive for them to join the Group, reward for joining the Group or for leaving the Group.

## 12 DEPRECIATION AND AMORTISATION

	Year ended 31 December		
	2011	2012	2013
Depreciation of property and equipment . . . . .	41,657	28,664	31,303
Depreciation of investment properties . . . . .	559	1,072	1,123
Amortisation of intangible assets . . . . .	10,558	9,439	13,964
Amortisation of leasehold improvements and long-term deferred expenses . . . . .	14,137	18,618	20,726
<b>Total</b> . . . . .	<b>66,911</b>	<b>57,793</b>	<b>67,116</b>

## 13 OTHER OPERATING EXPENSES

	Year ended 31 December		
	2011	2012	2013
Business tax and surcharges . . . . .	40,987	58,222	63,685
Rental expenses . . . . .	34,593	38,033	41,961
Securities investors protection fund . . . . .	14,123	14,281	10,215
Communication costs . . . . .	19,426	18,750	16,882
Business development expenses . . . . .	17,411	22,339	18,993
Pre-opening expenses . . . . .	10,035	8,974	1,575
Utilities . . . . .	9,727	9,886	10,315
Advertising expenses . . . . .	7,000	7,533	3,305
Electronic device operating costs . . . . .	6,779	7,990	8,752
Consulting fees . . . . .	6,558	6,214	9,898
Property management fees . . . . .	5,444	6,104	5,890
Auditors' remuneration . . . . .	549	382	810
Foreign exchange losses, net . . . . .	404	18	1,529
Donation . . . . .	2	2,000	4,600
Others . . . . .	66,722	55,605	65,652
<b>Total</b> . . . . .	<b>239,760</b>	<b>256,331</b>	<b>264,062</b>

## 14 IMPAIRMENT REVERSAL/(LOSSES)

	Year ended 31 December		
	2011	2012	2013
Accounts receivable . . . . .	(1,252)	(1,608)	1,716
Available-for-sale financial assets . . . . .	6,340	(6,301)	(9,654)
<b>Total</b> . . . . .	<b>5,088</b>	<b>(7,909)</b>	<b>(7,938)</b>

## 15 INCOME TAX EXPENSE

	Year ended 31 December		
	2011	2012	2013
Current			
– Mainland China . . . . .	38,838	89,077	120,774
Deferred			
– Mainland China (Note 26) . . . . .	5,404	(15,222)	(20,966)
Income tax . . . . .	<b>44,242</b>	<b>73,855</b>	<b>99,808</b>

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	Year ended 31 December		
	2011	2012	2013
Profit before income tax . . . . .	137,024	257,104	338,235
Tax calculated at applicable statutory tax rate of 25% . . . . .	34,256	64,276	84,559
Income not subject to tax <sup>(1)</sup> . . . . .	(147)	(1,123)	(1,453)
Items not deductible for tax purposes <sup>(2)</sup> . . . . .	7,997	8,509	7,095
Tax losses for which no deferred income tax asset was recognised <sup>(3)</sup> . . . . .	2,136	2,193	9,607
<b>Total</b> . . . . .	<b>44,242</b>	<b>73,855</b>	<b>99,808</b>

(1) The income not subject to tax mainly represents interest income arising from PRC treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(2) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

(3) This amount mainly represents tax losses of Ashmore-CCSC Fund Management Company Limited.

## 16 PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

	Year ended 31 December		
	2011	2012	2013
Central China Futures Co., Ltd. . . . .	80	470	702
Henan Zhongzheng Kaiyuan Venture Capital Fund. . . . .	–	(4)	(16)
Ashmore-CCSC Fund Management Company Limited . . . . .	–	–	(15,030)
Henan Zhongzheng Kaiyuan Venture Capital Fund (limited partnership). . . . .	–	–	(166)
<b>Total</b> . . . . .	<b>80</b>	<b>466</b>	<b>(14,510)</b>

## 17 EARNINGS PER SHARE

### 17.1 Basic 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 during the year.

	Year ended 31 December		
	2011	2012	2013
Profit attributable to shareholders of the Company (in RMB thousands) . . . . .	92,702	182,783	252,937
Weighted average number of ordinary shares in issue (in thousands) . . . . .	2,033,516	2,033,516	2,033,516
Basic earnings per share (in RMB) . . . . .	<b>0.05</b>	<b>0.09</b>	<b>0.12</b>

### 17.2 Diluted earnings per share

For the year ended 31 December 2011, 2012 and 2013, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

## 18 DIVIDENDS

## The Company

	Year ended 31 December		
	2011	2012	2013
Dividends declared for the year . . . . .	447,373	–	–
Dividends per ordinary share (in RMB) . . . . .	0.22	–	–
Dividends paid during the year . . . . .	447,373	–	–

Under the “Company Law” of the PRC and the Group’s Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (I) Making up cumulative losses from prior years, if any;
- (II) 10% of the Company’s profit is appropriated to the non-distributable statutory surplus reserve;
- (III) 10% of the Company’s profit is appropriated to the non-distributable general reserve;
- (IV) 10% of the Company’s profit is appropriated to the non-distributable transaction risk reserve;
- (V) Appropriations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders’ equity.

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC CAS and (ii) the retained profit determined in accordance with IFRS.

## 19 PROPERTY AND EQUIPMENT

## The Group

	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
1 January 2011 . . . . .	181,279	22,466	215,685	419,430
Additions . . . . .	10,236	1,577	29,711	41,524
Transfer to investment properties ( <i>Note 20</i> ). . . . .	(14,048)	–	–	(14,048)
Disposals . . . . .	–	–	(14,287)	(14,287)
31 December 2011 . . . . .	177,467	24,043	231,109	432,619
<b>Accumulated depreciation</b>				
1 January 2011 . . . . .	(17,456)	(11,822)	(127,246)	(156,524)
Additions . . . . .	(5,857)	(2,561)	(33,239)	(41,657)
Transfer to investment properties ( <i>Note 20</i> ). . . . .	3,903	–	–	3,903
Disposals . . . . .	–	–	14,224	14,224
31 December 2011 . . . . .	(19,410)	(14,383)	(146,261)	(180,054)
<b>Carrying amount</b>				
31 December 2011 . . . . .	158,057	9,660	84,848	252,565

## The Group

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electronics and other equipment</u>	<u>Total</u>
<b>Cost</b>				
1 January 2012 . . . . .	177,467	24,043	231,109	432,619
Additions . . . . .	577	952	22,140	23,669
Transfer to investment properties ( <i>Note 20</i> ). . .	(7,127)	–	–	(7,127)
Disposals . . . . .	–	(579)	(16,849)	(17,428)
31 December 2012 . . . . .	<u>170,917</u>	<u>24,416</u>	<u>236,400</u>	<u>431,733</u>
<b>Accumulated depreciation</b>				
1 January 2012 . . . . .	(19,410)	(14,383)	(146,261)	(180,054)
Additions . . . . .	(4,995)	(1,859)	(21,810)	(28,664)
Transfer to investment properties ( <i>Note 20</i> ). . .	2,323	–	–	2,323
Disposals . . . . .	–	562	16,140	16,702
31 December 2012 . . . . .	<u>(22,082)</u>	<u>(15,680)</u>	<u>(151,931)</u>	<u>(189,693)</u>
<b>Carrying amount</b>				
31 December 2012 . . . . .	<u>148,835</u>	<u>8,736</u>	<u>84,469</u>	<u>242,040</u>

## The Group

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electronics and other equipment</u>	<u>Total</u>
<b>Cost</b>				
1 January 2013 . . . . .	170,917	24,416	236,400	431,733
Additions . . . . .	–	1,802	21,530	23,332
Transfer to investment properties ( <i>Note 20</i> ). . .	(2,464)	–	–	(2,464)
Disposals . . . . .	–	(560)	(3,187)	(3,747)
31 December 2013 . . . . .	<u>168,453</u>	<u>25,658</u>	<u>254,743</u>	<u>448,854</u>
<b>Accumulated depreciation</b>				
1 January 2013 . . . . .	(22,082)	(15,680)	(151,931)	(189,693)
Additions <sup>(1)</sup> . . . . .	(4,411)	(1,837)	(31,435)	(37,683)
Transfer to investment properties ( <i>Note 20</i> ). . .	812	–	–	812
Disposals . . . . .	–	532	2,986	3,518
31 December 2013 . . . . .	<u>(25,681)</u>	<u>(16,985)</u>	<u>(180,380)</u>	<u>(223,046)</u>
<b>Carrying amount</b>				
31 December 2013 . . . . .	<u>142,772</u>	<u>8,673</u>	<u>74,363</u>	<u>225,808</u>

<sup>(1)</sup> In 2013, accumulated depreciation amounted to RMB6,380,000 was incurred during the preparation period of a subsidiary.



## The Company

	<b>Buildings</b>	<b>Motor vehicles</b>	<b>Electronics and other equipment</b>	<b>Total</b>
<b>Cost</b>				
1 January 2011 . . . . .	173,420	22,183	208,811	404,414
Additions . . . . .	10,236	1,332	28,914	40,482
Transfer to investment properties ( <i>Note 20</i> ). . .	(14,753)	–	–	(14,753)
Disposals . . . . .	–	–	(14,283)	(14,283)
31 December 2011 . . . . .	<u>168,903</u>	<u>23,515</u>	<u>223,442</u>	<u>415,860</u>
<b>Accumulated depreciation</b>				
1 January 2011 . . . . .	(17,304)	(11,708)	(122,564)	(151,576)
Additions . . . . .	(5,575)	(2,476)	(32,103)	(40,154)
Transfer to investment properties ( <i>Note 20</i> ). . .	3,959	–	–	3,959
Disposals . . . . .	–	–	14,221	14,221
31 December 2011 . . . . .	<u>(18,920)</u>	<u>(14,184)</u>	<u>(140,446)</u>	<u>(173,550)</u>
<b>Carrying amount</b>				
31 December 2011 . . . . .	<u><u>149,983</u></u>	<u><u>9,331</u></u>	<u><u>82,996</u></u>	<u><u>242,310</u></u>

## The Company

	<b>Buildings</b>	<b>Motor vehicles</b>	<b>Electronics and other equipment</b>	<b>Total</b>
<b>Cost</b>				
1 January 2012 . . . . .	168,903	23,515	223,442	415,860
Additions . . . . .	577	952	20,730	22,259
Transfer to investment properties ( <i>Note 20</i> ). . .	(8,240)	–	–	(8,240)
Disposals . . . . .	–	(579)	(16,489)	(17,068)
31 December 2012 . . . . .	<u>161,240</u>	<u>23,888</u>	<u>227,683</u>	<u>412,811</u>
<b>Accumulated depreciation</b>				
1 January 2012 . . . . .	(18,920)	(14,184)	(140,446)	(173,550)
Additions . . . . .	(4,767)	(1,751)	(21,017)	(27,535)
Transfer to investment properties ( <i>Note 20</i> ). . .	2,421	–	–	2,421
Disposals . . . . .	–	562	15,802	16,364
31 December 2012 . . . . .	<u>(21,266)</u>	<u>(15,373)</u>	<u>(145,661)</u>	<u>(182,300)</u>
<b>Carrying amount</b>				
31 December 2012 . . . . .	<u><u>139,974</u></u>	<u><u>8,515</u></u>	<u><u>82,022</u></u>	<u><u>230,511</u></u>

## The Company

	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
1 January 2013 . . . . .	161,240	23,888	227,683	412,811
Additions . . . . .	–	881	12,342	13,223
Transfer from investment properties ( <i>Note 20</i> ) . . . . .	1,114	–	–	1,114
Transfer to investment properties ( <i>Note 20</i> ) . . . . .	(2,464)	–	–	(2,464)
Disposals . . . . .	–	(560)	(2,932)	(3,492)
31 December 2013 . . . . .	159,890	24,209	237,093	421,192
<b>Accumulated depreciation</b>				
1 January 2013 . . . . .	(21,266)	(15,373)	(145,661)	(182,300)
Additions . . . . .	(4,209)	(1,588)	(23,413)	(29,210)
Transfer from investment properties ( <i>Note 20</i> ) . . . . .	(96)	–	–	(96)
Transfer to investment properties ( <i>Note 20</i> ) . . . . .	812	–	–	812
Disposals . . . . .	–	532	2,742	3,274
31 December 2013 . . . . .	(24,759)	(16,429)	(166,332)	(207,520)
<b>Carrying amount</b>				
31 December 2013 . . . . .	135,131	7,780	70,761	213,672

For the year ended 31 December 2013, gains from disposal of property and equipment amounted to RMB6,000 (2012: loss of RMB188,000; 2011: loss of RMB189,000).

All buildings of the Group are located in mainland China.

## 20 INVESTMENT PROPERTIES

## The Group

	1 January 2011	Transfer in (Note 19)	Additions	31 December 2011
Buildings . . . . .	24,286	14,048	–	38,334
Accumulated depreciation . . . . .	(7,314)	(3,903)	(559)	(11,776)
Carrying amount . . . . .	16,972			26,558
	1 January 2012	Transfer in (Note 19)	Additions	31 December 2012
Buildings . . . . .	38,334	7,127	–	45,461
Accumulated depreciation . . . . .	(11,776)	(2,323)	(1,072)	(15,171)
Carrying amount . . . . .	26,558			30,290

	<u>1 January 2013</u>	<u>Transfer in (Note 19)</u>	<u>Additions</u>	<u>31 December 2013</u>
Buildings . . . . .	45,461	2,464	–	47,925
Accumulated depreciation . . . . .	(15,171)	(812)	(1,123)	(17,106)
Carrying amount . . . . .	<u>30,290</u>			<u>30,819</u>

**The Company**

	<u>1 January 2011</u>	<u>Transfer in (Note 19)</u>	<u>Additions</u>	<u>31 December 2011</u>
Buildings . . . . .	32,146	14,753	–	46,899
Accumulated depreciation . . . . .	(7,457)	(3,959)	(852)	(12,268)
Carrying amount . . . . .	<u>24,689</u>			<u>34,631</u>

	<u>1 January 2012</u>	<u>Transfer in (Note 19)</u>	<u>Additions</u>	<u>31 December 2012</u>
Buildings . . . . .	46,899	8,240	–	55,139
Accumulated depreciation . . . . .	(12,268)	(2,421)	(1,299)	(15,988)
Carrying amount . . . . .	<u>34,631</u>			<u>39,151</u>

	<u>1 January 2013</u>	<u>Transfer in (Note 19)</u>	<u>Transfer out (Note 19)</u>	<u>Additions</u>	<u>31 December 2013</u>
Buildings . . . . .	55,139	2,464	(1,114)	–	56,489
Accumulated depreciation . . . . .	(15,988)	(812)	96	(1,326)	(18,030)
Carrying amount . . . . .	<u>39,151</u>				<u>38,459</u>

**21 GOODWILL**

Goodwill of the Group arose from its acquisition of Yuliang Futures Brokerage Co., Ltd. (later renamed to Central China Futures Co., Ltd.) on 12 October 2007.

The recoverable amount is determined based on the value in use derived from the present value of expected future cash flows. No impairment provision is made because the recoverable amount exceeds the carrying amount.

**22 INTANGIBLE ASSETS****The Group**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>Net Book Value</b>			
Computer software . . . . .	24,629	30,396	45,695
Trading rights . . . . .	169	–	–
Other intangible assets . . . . .	1,574	1,998	1,110
<b>Total . . . . .</b>	<u>26,372</u>	<u>32,394</u>	<u>46,805</u>

**The Company**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>Net Book Value</b>			
Computer software . . . . .	22,868	29,246	34,774
Trading rights . . . . .	169	–	–
Other intangible assets . . . . .	<u>1,574</u>	<u>1,434</u>	<u>1,110</u>
<b>Total . . . . .</b>	<b><u>24,611</u></b>	<b><u>30,680</u></b>	<b><u>35,884</u></b>

**The Group**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>Cost</b>			
Balance at beginning of year . . . . .	75,195	81,000	96,355
Additions . . . . .	6,437	15,478	30,080
Disposals . . . . .	<u>(632)</u>	<u>(123)</u>	<u>(877)</u>
Balance at end of year . . . . .	<u>81,000</u>	<u>96,355</u>	<u>125,558</u>
<b>Accumulated amortisation</b>			
Balance at beginning of year . . . . .	(44,620)	(54,628)	(63,961)
Charges <sup>(1)</sup> . . . . .	(10,558)	(9,439)	(15,477)
Disposals . . . . .	<u>550</u>	<u>106</u>	<u>685</u>
Balance at end of year . . . . .	<u>(54,628)</u>	<u>(63,961)</u>	<u>(78,753)</u>
<b>Carrying amount</b>			
Balance at end of year . . . . .	<b><u>26,372</u></b>	<b><u>32,394</u></b>	<b><u>46,805</u></b>

**The Company**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>Cost</b>			
Balance at beginning of year . . . . .	73,002	78,009	92,769
Additions . . . . .	5,639	14,883	16,032
Disposals . . . . .	<u>(632)</u>	<u>(123)</u>	<u>(877)</u>
Balance at end of year . . . . .	<u>78,009</u>	<u>92,769</u>	<u>107,924</u>
<b>Accumulated amortisation</b>			
Balance at beginning of year . . . . .	(43,843)	(53,398)	(62,089)
Charges . . . . .	(10,105)	(8,797)	(10,636)
Disposals . . . . .	<u>550</u>	<u>106</u>	<u>685</u>
Balance at end of year . . . . .	<u>(53,398)</u>	<u>(62,089)</u>	<u>(72,040)</u>
<b>Carrying amount</b>			
Balance at end of year . . . . .	<b><u>24,611</u></b>	<b><u>30,680</u></b>	<b><u>35,884</u></b>

<sup>(1)</sup> In 2013, accumulated amortisation amounted to RMB1,513,000 was incurred during the preparation period of a subsidiary.

## 23 INVESTMENTS IN SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES

## The Company

	31 December 2011	31 December 2012	31 December 2013
Central China Futures Co., Ltd. . . . .	109,562	109,562	109,562
Zhongding Kaiyuan Entrepreneurial Investment Management Co., Ltd. . . . .	–	200,000	200,000
Ashmore-CCSC Fund Management Company Limited. . . . .	–	–	102,000
<b>Total</b> . . . . .	<b>109,562</b>	<b>309,562</b>	<b>411,562</b>

## 23.1 General information of major subsidiaries

The following were major subsidiaries of the Group as at 31 December 2011, 2012 and 2013. Unless specially stated, the equity interests in these subsidiaries were all ordinary shares and directly or indirectly held by the Group, and the percentage of ownership held by the Group represented the voting rights of the Group except for ZZKY Venture Capital Fund, which is explained in Note (2) below. The registered addresses were also their business locations.

Name of subsidiary	Date of establishment	Place of registration	Registered capital	Equity interest held by the Group			Principal activities	Directly held/ indirectly held
				31 December 2011	31 December 2012	31 December 2013		
Central China Futures Co., Ltd. . . . .	April 1993	Zhengzhou, PRC	110,000	92.55%	92.55%	92.55%	Futures brokerage	Direct
Zhongding Kaiyuan Entrepreneurial Investment Management Co., Ltd. ("ZDKY Venture Capital") . . . . .	February 2012	Beijing, PRC	200,000	–	100.00%	100.00%	Investment holding	Direct
Henan Zhongzheng Kaiyuan Venture Capital Fund Co., Ltd. ("ZZKY Venture Capital") <sup>(1)</sup> . . . . .	December 2012	Luoyang, PRC	10,000	–	60.00%	60.00%	Investment management	Indirect
Ashmore-CCSC Fund Management Company Limited ("Ashmore-CCSC") . . . . .	January 2013	Shanghai, PRC	200,000	–	–	51.00%	Fund management	Direct
Henan Zhongzheng Kaiyuan Venture Capital Fund (Limited Partnership) ("ZZKY Venture Capital Fund") <sup>(2)</sup> . . . . .	June 2013	Luoyang, PRC	110,000	–	–	32.72%	Investment holding	Indirect

<sup>(1)</sup> ZZKY Venture Capital is directly held by ZDKY Venture Capital.

<sup>(2)</sup> ZZKY Venture Capital Fund is directly held by ZDKY Venture Capital and ZZKY Venture Capital. ZZKY Venture Capital is the only general partner and the Group holds most of the voting rights for the key operating activities of ZZKY Venture Capital Fund.

## 23.2 Consolidated structured entities

As at 31 December 2013, total assets of consolidated structured entities (“SEs”) and the Group’s initial investments on the date of issuance of these schemes are:

	<u>Total assets</u>	<u>The Group’s initial investments</u>
“Yanhuang No. 1” . . . . .	501,106	59,972
“Yanhuang No. 2” . . . . .	35,724	13,751
“Alpha Phase I” . . . . .	10,396	7,035
“Lianmeng No. 6” . . . . .	260,215	50,000
<b>Total</b> . . . . .	<u>807,441</u>	<u>130,758</u>

The Company provides credit enhancement for “Yanhuang No. 1” by compensating certain losses of the investors who joined in the initial subscription period upon maturity and up to the amount of its share of the net book value of the scheme. The Company has set aside a provision for potential losses (Note 38). This provision has been included in financial liabilities designated at fair value through profit or loss in the consolidated financial statements of the Group.

“Yanhuang No. 1” asset management scheme was in existence as of 31 December 2011 and was unconsolidated. Its total assets, the Group’s initial investment on the date of issuance of these schemes and maximum exposure as of 31 December 2011 are as follow:

	<u>Total assets</u>	<u>The Group’s initial investment</u>	<u>The Group’s maximum exposure</u>
“Yanhuang No. 1” . . . . .	1,028,359	59,972	54,287

“Yanhuang No. 1” and “Yanhuang No. 2” asset management schemes were in existence as of 31 December 2012 and were unconsolidated. Their total assets, the Group’s initial investment on the date of issuance of these schemes and maximum exposure as of 31 December 2012 are as follow:

	<u>Total assets</u>	<u>The Group’s initial investment</u>	<u>The Group’s maximum exposure</u>
“Yanhuang No. 1” . . . . .	716,166	59,972	53,501
“Yanhuang No. 2” . . . . .	459,417	13,751	13,775
<b>Total</b> . . . . .	<u>1,175,583</u>	<u>73,723</u>	<u>67,276</u>

## 23.3 Business combination of structured entities

It was concluded that the Group became the principal of “Yanhuang No. 1” and “Yanhuang No. 2” collective asset management schemes on 31 May 2013 and 30 April 2013 respectively and hence started to consolidate these SEs from that point of time. Recognised amounts of identifiable assets acquired, liabilities assumed and the consideration the Group paid to acquire the SEs on the date of acquisition are listed as below:

	Yanhuang No. 1	Yanhuang No. 2
Date the Group became principal of the schemes . . . . .	31 May 2013	30 April 2013
<b>Consideration:</b>		
Available-for-sale financial assets which is the fair value of the interest held by the Group in the schemes . . . . .	52,709	13,679
<b>Total consideration</b> . . . . .	<u>52,709</u>	<u>13,679</u>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>		
Refundable deposits . . . . .	195	13
Other assets . . . . .	2,540	3,021
Interest receivable . . . . .	1,387	32
Financial assets held under resale agreements . . . . .	–	3,000
Financial assets held for trading . . . . .	479,034	46,405
Clearing settlement funds . . . . .	4,232	1,431
Cash and bank balances . . . . .	128,331	15,325
Other liabilities . . . . .	(63)	(7)
Financial liabilities designated at fair value through profit or loss . . . . .	(562,620)	(55,541)
Tax payable . . . . .	(327)	–
<b>Total identifiable net assets</b> . . . . .	<u>52,709</u>	<u>13,679</u>
Goodwill . . . . .	–	–

## 24 OTHER NON-CURRENT ASSETS

## The Group

	31 December 2011	31 December 2012	31 December 2013
Leasehold improvements <sup>(1)</sup> . . . . .	58,134	50,687	34,818
Long-term deferred expenses . . . . .	1,082	1,727	2,615
Others . . . . .	–	–	448
<b>Total</b> . . . . .	<u>59,216</u>	<u>52,414</u>	<u>37,881</u>

## The Company

	31 December 2011	31 December 2012	31 December 2013
Leasehold improvements <sup>(1)</sup> . . . . .	57,602	49,848	33,819
Long-term deferred expenses . . . . .	1,082	1,727	2,615
<b>Total</b> . . . . .	<u>58,684</u>	<u>51,575</u>	<u>36,434</u>

<sup>(1)</sup> Leasehold improvements of the Group and the Company are amortised over the expected beneficial periods.



**The Group**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Balance at beginning of year . . . . .	33,819	58,134	50,687
Additions . . . . .	38,067	10,681	3,340
Amortisation . . . . .	(13,752)	(18,128)	(19,209)
Balance at end of year . . . . .	<u>58,134</u>	<u>50,687</u>	<u>34,818</u>

**The Company**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Balance at beginning of year . . . . .	33,104	57,602	49,848
Additions . . . . .	37,951	10,078	2,759
Amortisation . . . . .	(13,453)	(17,832)	(18,788)
Balance at end of year . . . . .	<u>57,602</u>	<u>49,848</u>	<u>33,819</u>

**25 AVAILABLE-FOR-SALE FINANCIAL ASSETS****Non-current assets****The Group**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
<b>At fair value</b>			
Investments in unlisted companies . . . . .	–	20,000	38,378
Collective asset management schemes <sup>(1)</sup> . . . . .	54,287	67,277	–
<b>Subtotal . . . . .</b>	<u>54,287</u>	<u>87,277</u>	<u>38,378</u>
<b>At cost</b>			
Investments in unlisted companies . . . . .	4,094	4,094	4,094
Less: impairment losses . . . . .	(2,279)	(2,279)	(2,376)
<b>Total . . . . .</b>	<u>56,102</u>	<u>89,092</u>	<u>40,096</u>
<b>Analysed as</b>			
Listed outside Hong Kong . . . . .	–	–	–
Unlisted . . . . .	56,102	89,092	40,096
<b>Total . . . . .</b>	<u>56,102</u>	<u>89,092</u>	<u>40,096</u>

**The Company**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>At fair value</b>			
Collective asset management schemes <sup>(1)</sup> . . . . .	54,287	67,277	66,066
<b>At cost</b>			
Investments in unlisted companies . . . . .	2,694	2,694	2,694
Less: impairment losses . . . . .	(2,279)	(2,279)	(2,376)
<b>Total</b> . . . . .	<u>54,702</u>	<u>67,692</u>	<u>66,384</u>
<b>Analysed as</b>			
Listed outside Hong Kong . . . . .	–	–	–
Unlisted . . . . .	54,702	67,692	66,384
<b>Total</b> . . . . .	<u>54,702</u>	<u>67,692</u>	<u>66,384</u>

<sup>(1)</sup> These are the Group and the Company's investments in Yanhuang No. 1 and Yanhuang No. 2, which were consolidated from 31 May 2013 and 30 April 2013 respectively.

**Current assets****The Group**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>At fair value</b>			
Equity securities . . . . .	373,166	82,815	49,537
Investment funds . . . . .	–	11	8,184
Collective asset management schemes . . . . .	–	–	1,004
Wealth management products . . . . .	–	–	75,049
Trust schemes . . . . .	–	–	257,300
<b>Total</b> . . . . .	<u>373,166</u>	<u>82,826</u>	<u>391,074</u>
<b>Analysed as</b>			
Listed outside Hong Kong . . . . .	373,166	82,826	57,721
Unlisted . . . . .	–	–	333,353
<b>Total</b> . . . . .	<u>373,166</u>	<u>82,826</u>	<u>391,074</u>

**The Company**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>At fair value</b>			
Equity securities . . . . .	373,166	82,815	49,537
Investment funds . . . . .	–	11	8,184
Collective asset management schemes . . . . .	–	–	50,700
<b>Total</b> . . . . .	<u>373,166</u>	<u>82,826</u>	<u>108,421</u>
<b>Analysed as</b>			
Listed outside Hong Kong . . . . .	373,166	82,826	57,721
Unlisted . . . . .	–	–	50,700
<b>Total</b> . . . . .	<u>373,166</u>	<u>82,826</u>	<u>108,421</u>

As at 31 December 2012 and 2013, available-for-sale financial assets of the Group and the Company included securities lent to clients of RMB5,000 and RMB7,337,000 respectively.

As at 31 December 2011 and 2012, no securities of the Group and the Company is placed as collateral. As at 31 December 2013, the fair value of securities of the Group and the Company which have been placed as collateral is RMB35,620,000.

**26 DEFERRED INCOME TAX ASSETS AND LIABILITIES**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net movements on the deferred income tax account are as follows:

**The Group**

	<u>Year ended 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Balance at beginning of the year . . . . .	38,553	47,289	54,322
Income statement charge ( <i>Note 15</i> ) . . . . .	(5,404)	15,222	20,966
Tax charge relating to components of other comprehensive income ( <i>Note 37</i> ) . . . . .	14,140	(8,189)	(4,303)
Balance at end of year . . . . .	<u>47,289</u>	<u>54,322</u>	<u>70,985</u>

**The Company**

	<u>Year ended 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Balance at beginning of the year . . . . .	38,338	47,033	53,307
Income statement charge . . . . .	(5,445)	14,463	19,385
Tax charge relating to components of other comprehensive income ( <i>Note 37</i> ) . . . . .	14,140	(8,189)	(2,563)
Balance at end of year . . . . .	<u>47,033</u>	<u>53,307</u>	<u>70,129</u>

The movements in deferred income tax assets during the years are as follows:

**The Group**

	Provision for asset impairment	Employee benefits payable	Changes in fair value of available-for- sale financial assets	Changes in fair value of financial assets held for trading	Changes in fair value of derivatives	Accrual and others	Total
<b>As at 1 January 2011</b> . . . . .	7,172	49,495	–	–	–	2,970	59,637
Income statement charge . . . . .	356	(30,498)	–	4,482	–	(372)	(26,032)
Tax charge relating to components of other comprehensive income . . . . .	–	–	13,684	–	–	–	13,684
<b>As at 31 December 2011</b> . . . . .	7,528	18,997	13,684	4,482	–	2,598	47,289
Income statement charge . . . . .	1,740	15,874	–	(4,482)	2,467	2,377	17,976
Tax charge relating to components of other comprehensive income . . . . .	–	–	(8,189)	–	–	–	(8,189)
<b>As at 31 December 2012</b> . . . . .	9,268	34,871	5,495	–	2,467	4,975	57,076
Income statement charge . . . . .	1,882	11,515	–	1,772	(2,467)	5,762	18,464
Tax charge relating to components of other comprehensive income . . . . .	–	–	(4,303)	–	–	–	(4,303)
<b>As at 31 December 2013</b> . . . . .	11,150	46,386	1,192	1,772	–	10,737	71,237

**The Company**

	Provision for asset impairment	Employee benefits payable	Changes in fair value of available-for- sale financial assets	Changes in fair value of financial assets held for trading	Changes in fair value of derivatives	Accrual and others	Total
<b>As at 1 January 2011</b> . . . . .	7,196	49,361	–	–	–	2,865	59,422
Income statement charge . . . . .	605	(30,787)	–	4,482	–	(373)	(26,073)
Tax charge relating to components of other comprehensive income . . . . .	–	–	13,684	–	–	–	13,684
<b>As at 31 December 2011</b> . . . . .	7,801	18,574	13,684	4,482	–	2,492	47,033
Income statement charge . . . . .	2,075	14,778	–	(4,482)	2,467	2,379	17,217
Tax charge relating to components of other comprehensive income . . . . .	–	–	(8,189)	–	–	–	(8,189)
<b>As at 31 December 2012</b> . . . . .	9,876	33,352	5,495	–	2,467	4,871	56,061
Income statement charge . . . . .	1,269	10,574	–	1,772	(2,467)	5,735	16,883
Tax charge relating to components of other comprehensive income . . . . .	–	–	(2,563)	–	–	–	(2,563)
<b>As at 31 December 2013</b> . . . . .	11,145	43,926	2,932	1,772	–	10,606	70,381

The movements in deferred income tax liabilities during the years are as follows:

**The Group and the Company**

	Changes in fair value of available-for-sale financial assets	Changes in fair value of financial assets held for trading	Changes in fair value of derivatives	Total
<b>As at 1 January 2011</b> . . . . .	(456)	(20,628)	–	(21,084)
Income statement charge . . . . .	–	20,628	–	20,628
Tax charge relating to components of other comprehensive income . . . . .	456	–	–	456
<b>As at 31 December 2011</b> . . . . .	–	–	–	–
Income statement charge . . . . .	–	(2,754)	–	(2,754)
Tax charge relating to components of other comprehensive income . . . . .	–	–	–	–
<b>As at 31 December 2012</b> . . . . .	–	(2,754)	–	(2,754)
Income statement charge . . . . .	–	2,754	(252)	2,502
Tax charge relating to components of other comprehensive income . . . . .	–	–	–	–
<b>As at 31 December 2013</b> . . . . .	–	–	(252)	(252)

**27 REFUNDABLE DEPOSITS**

**The Group**

	31 December 2011	31 December 2012	31 December 2013
Deposits to Stock Exchanges			
– Shanghai Stock Exchange . . . . .	4,356	2,320	10,390
– Shenzhen Stock Exchange . . . . .	105,596	78,229	8,745
Deposits to Futures and Commodities Exchanges			
– Dalian Commodities Exchange . . . . .	9,988	29,332	49,474
– Shanghai Futures Exchange . . . . .	55,312	102,427	88,917
– Zhengzhou Commodities Exchange . . . . .	16,040	20,308	20,879
– China Financial Futures Exchange . . . . .	8,402	40,127	66,125
Deposits to China Securities Finance Corporation Limited . .	–	–	168,458
Total . . . . .	199,694	272,743	412,988

**The Company**

	31 December 2011	31 December 2012	31 December 2013
Deposits to Stock Exchanges			
– Shanghai Stock Exchange . . . . .	4,356	2,320	10,070
– Shenzhen Stock Exchange . . . . .	105,596	78,229	8,646
Deposits to Futures and Commodities Exchange			
– China Financial Futures Exchange . . . . .	–	27,314	11,498
Deposits to China Securities Finance Corporation Limited . .	–	–	168,458
Total . . . . .	109,952	107,863	198,672

## 28 OTHER CURRENT ASSETS

## The Group

	31 December 2011	31 December 2012	31 December 2013
Interest receivable <sup>(1)</sup> . . . . .	113,366	95,387	80,757
Accounts receivable <sup>(2)</sup> . . . . .	3,297	3,347	21,139
Receivable from non-controlling shareholder of Ashmore- CCSC FMC . . . . .	32,101	38,206	–
Other receivables . . . . .	30,376	62,800	37,698
Others <sup>(3)</sup> . . . . .	26,713	22,501	137,710
Less: Impairment allowance . . . . .	(22,681)	(23,341)	(21,230)
Total . . . . .	<u>183,172</u>	<u>198,900</u>	<u>256,074</u>

## The Company

	31 December 2011	31 December 2012	31 December 2013
Interest receivable <sup>(1)</sup> . . . . .	113,366	95,318	80,162
Accounts receivable <sup>(2)</sup> . . . . .	3,297	3,347	20,091
Receivable from non-controlling shareholder of Ashmore- CCSC FMC . . . . .	61,881	76,759	–
Other receivables . . . . .	30,275	32,863	35,105
Others <sup>(3)</sup> . . . . .	26,015	20,897	132,433
Less: Impairment allowance . . . . .	(23,774)	(25,775)	(21,198)
Total . . . . .	<u>211,060</u>	<u>203,409</u>	<u>246,593</u>

## (1) Interest receivable

## The Group

	31 December 2011	31 December 2012	31 December 2013
Interest receivable from bonds . . . . .	112,582	70,660	49,630
Interest receivable from deposits . . . . .	–	22,437	518
Interest receivable from margin financing, securities lending and financial assets held under resale agreements . . . . .	784	2,233	30,609
Others . . . . .	–	57	–
Total . . . . .	<u>113,366</u>	<u>95,387</u>	<u>80,757</u>

## The Company

	31 December 2011	31 December 2012	31 December 2013
Interest receivable from bonds . . . . .	112,582	70,660	49,510
Interest receivable from deposits . . . . .	–	22,426	193
Interest receivable from margin financing, securities lending and financial assets held under resale agreements . . . . .	784	2,232	30,459
Total . . . . .	<u>113,366</u>	<u>95,318</u>	<u>80,162</u>

## (2) Accounts receivable

The aging analysis of accounts receivable is as follows:

## The Group

	31 December 2011		31 December 2012		31 December 2013	
	Amount	Impairment allowance	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year . . . . .	3,297	(16)	3,147	(16)	19,839	(506)
1 to 3 years . . . . .	–	–	200	(10)	1,300	(65)
Total . . . . .	<u>3,297</u>	<u>(16)</u>	<u>3,347</u>	<u>(26)</u>	<u>21,139</u>	<u>(571)</u>

## The Company

	31 December 2011		31 December 2012		31 December 2013	
	Amount	Impairment allowance	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year . . . . .	3,297	(16)	3,147	(16)	18,791	(500)
1 to 3 years . . . . .	–	–	200	(10)	1,300	(65)
Total . . . . .	<u>3,297</u>	<u>(16)</u>	<u>3,347</u>	<u>(26)</u>	<u>20,091</u>	<u>(565)</u>

- (3) The Company entered into a contract to acquire a land use right in Zhengzhou, and the consideration of RMB100,600,000 was fully paid by the Company in 2013. As of 31 December 2013, the land use right certificate had not been issued.

## 29 MARGIN ACCOUNT RECEIVABLE

As at 31 December 2012 and 2013, no margin accounts receivable is overdue or impaired.

## 30 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

## The Group

	31 December 2011	31 December 2012	31 December 2013
Analysed by asset type:			
– Equity securities . . . . .	–	44,663	326,735
– Debt securities . . . . .	860,000	453,687	466,326
– Investment funds . . . . .	–	–	25
Total . . . . .	<u>860,000</u>	<u>498,350</u>	<u>793,086</u>
	31 December 2011	31 December 2012	31 December 2013
Analysed by market:			
– Interbank market . . . . .	450,000	448,687	299,226
– Shanghai Stock Exchange . . . . .	405,000	49,663	251,516
– Shenzhen Stock Exchange . . . . .	5,000	–	242,344
Total . . . . .	<u>860,000</u>	<u>498,350</u>	<u>793,086</u>



**The Company**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Analysed by asset type:			
– Equity securities . . . . .	–	44,663	326,735
– Debt securities . . . . .	860,000	453,687	299,226
– Investment funds . . . . .	–	–	25
Total . . . . .	<u>860,000</u>	<u>498,350</u>	<u>625,986</u>
	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Analysed by market:			
– Interbank market . . . . .	450,000	448,687	299,226
– Shanghai Stock Exchange . . . . .	405,000	49,663	84,416
– Shenzhen Stock Exchange . . . . .	5,000	–	242,344
Total . . . . .	<u>860,000</u>	<u>498,350</u>	<u>625,986</u>

Collateral held by the Group as part of some of its resale agreements may be placed again as collateral in the absence of default by any party involved, and the Group is obligated to return the assets to its counterparties upon maturity of the contracts. As at 31 December 2011, 2012 and 2013, the fair value of securities of the Group and the Company which have been placed as collateral were nil, RMB441,774,000 and RMB293,955,000 respectively.

**31 DERIVATIVE FINANCIAL INSTRUMENTS**

The derivative financial assets of the Group and the Company mainly represent stock index futures contracts. These trading activities started in 2012. The Group settles its gains or losses on stock index futures (“SIF”) position on a daily basis, with the corresponding receipts and payments as at 31 December 2012 and 2013 included in “clearing settlement funds”.

**The Group**

	<u>31 December 2012</u>		<u>31 December 2013</u>	
	<u>Contractual value</u>	<u>Negative fair value</u>	<u>Contractual value</u>	<u>Positive fair value</u>
SIF . . . . .	<u>226,104</u>	(9,867)	<u>103,625</u>	1,000
Less: Cash paid/(received) as settlement . . . . .		9,867		(1,000)
Net position of SIF contracts . . . . .		<u>–</u>		<u>–</u>

**The Company**

	<u>31 December 2012</u>		<u>31 December 2013</u>	
	<u>Contractual value</u>	<u>Negative fair value</u>	<u>Contract value</u>	<u>Positive fair value</u>
SIF . . . . .	<u>226,104</u>	(9,867)	<u>95,815</u>	1,009
Less: Cash paid/(received) as settlement . . . . .		9,867		(1,009)
Net position of SIF contracts . . . . .		<u>–</u>		<u>–</u>

## 32 FINANCIAL ASSETS HELD FOR TRADING

**The Group**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Debt securities . . . . .	3,338,349	2,989,676	2,906,360
Equity securities . . . . .	14,779	53,358	205,746
Investment funds . . . . .	4,921	356,505	326,888
<b>Total . . . . .</b>	<b>3,358,049</b>	<b>3,399,539</b>	<b>3,438,994</b>
<b>Analysed as:</b>			
Listed outside Hong Kong . . . . .	3,308,049	3,179,234	3,136,845
Unlisted . . . . .	50,000	220,305	302,149
	<b>3,358,049</b>	<b>3,399,539</b>	<b>3,438,994</b>

**The Company**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Debt securities . . . . .	3,338,349	2,989,676	2,887,401
Equity securities . . . . .	14,779	53,358	63,282
Investment funds . . . . .	4,921	356,505	74,739
<b>Total . . . . .</b>	<b>3,358,049</b>	<b>3,399,539</b>	<b>3,025,422</b>
<b>Analysed as:</b>			
Listed outside Hong Kong . . . . .	3,308,049	3,179,234	2,975,422
Unlisted . . . . .	50,000	220,305	50,000
	<b>3,358,049</b>	<b>3,399,539</b>	<b>3,025,422</b>

As at 31 December 2011, 2012 and 2013, the fair value of securities of the Group and the Company which have been placed as collateral were RMB2,257,345,000, RMB1,338,074,000 and RMB2,349,679,000 respectively.

Those "listed outside Hong Kong" include securities and investment funds traded over PRC's interbank bond markets, and Shanghai and Shenzhen Stock Exchanges.

## 33 CLEARING SETTLEMENT FUNDS

## The Group

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Clearing settlement funds held for clients . . . . .	497,429	621,633	919,810
Proprietary clearing settlement funds . . . . .	14,300	40,683	185,034
Total . . . . .	<u>511,729</u>	<u>662,316</u>	<u>1,104,844</u>

## The Company

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Clearing settlement funds held for clients . . . . .	408,461	469,294	809,391
Proprietary clearing settlement funds . . . . .	14,300	40,683	185,034
Total . . . . .	<u>422,761</u>	<u>509,977</u>	<u>994,425</u>

## 34 CASH HELD FOR BROKERAGE CLIENTS

The Group and the Company maintain separate banking accounts with banks and authorised institutions for clients' monies arising from the normal course of business. The Group and the Company record these monies as cash held for brokerage clients under current assets, and recognise them as due to clients given that they are held liable for any loss or appropriation of these monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions as per CSRC regulations.

## 35 CASH AND BANK BALANCES

## The Group

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Cash . . . . .	531	638	637
Bank balances . . . . .	432,566	997,015	569,781
Total . . . . .	<u>433,097</u>	<u>997,653</u>	<u>570,418</u>

## The Company

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Cash . . . . .	513	612	575
Bank balances . . . . .	321,749	717,506	295,720
Total . . . . .	<u>322,262</u>	<u>718,118</u>	<u>296,295</u>

## 36 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

**The Group and the Company**

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Registered, issued and fully paid share capital (in thousand) . . . . .	2,033,516	2,033,516	2,033,516
Face value (RMB'000). . . . .	2,033,516	2,033,516	2,033,516

## 37 RESERVES

**The Group**

	<u>Surplus reserve<sup>(1)</sup></u>	<u>General reserve<sup>(2)</sup></u>	<u>Transaction risk reserve<sup>(2)</sup></u>	<u>Available-for-sale financial assets revaluation reserve<sup>(3)</sup></u>	<u>Total</u>
As at 1 January 2011 . . . . .	260,144	260,144	255,390	1,367	777,045
Changes in fair value recognised in other comprehensive income . . . . .	-	-	-	(42,417)	(42,417)
Appropriation to surplus reserve . . . . .	9,801	-	-	-	9,801
Appropriation to general reserve . . . . .	-	9,801	-	-	9,801
Appropriation to transaction risk reserve . . . . .	-	-	9,801	-	9,801
As at 31 December 2011 . . . . .	269,945	269,945	265,191	(41,050)	764,031
Changes in fair value recognised in other comprehensive income . . . . .	-	-	-	24,564	24,564
Appropriation to surplus reserve . . . . .	18,074	-	-	-	18,074
Appropriation to general reserve . . . . .	-	18,074	-	-	18,074
Appropriation to transaction risk reserve . . . . .	-	-	18,074	-	18,074
As at 31 December 2012 . . . . .	288,019	288,019	283,265	(16,486)	842,817
Changes in fair value recognised in other comprehensive income . . . . .	-	-	-	12,905	12,905
Appropriation to surplus reserve . . . . .	26,826	-	-	-	26,826
Appropriation to general reserve . . . . .	-	26,826	-	-	26,826
Appropriation to transaction risk reserve . . . . .	-	-	26,826	-	26,826
As at 31 December 2013 . . . . .	314,845	314,845	310,091	(3,581)	936,200

## The Company

	Surplus reserve <sup>(1)</sup>	General reserve <sup>(2)</sup>	Transaction risk reserve <sup>(2)</sup>	Available-for-sale financial assets revaluation reserve <sup>(3)</sup>	Total
As at 1 January 2011 . . . . .	260,144	260,144	255,390	1,367	777,045
Changes in fair value recognised in other comprehensive income . . . . .	–	–	–	(42,417)	(42,417)
Appropriation to surplus reserve . . . . .	9,801	–	–	–	9,801
Appropriation to general reserve . . . . .	–	9,801	–	–	9,801
Appropriation to transaction risk reserve . . . . .	–	–	9,801	–	9,801
As at 31 December 2011 . . . . .	269,945	269,945	265,191	(41,050)	764,031
Changes in fair value recognised in other comprehensive income . . . . .	–	–	–	24,564	24,564
Appropriation to surplus reserve . . . . .	18,074	–	–	–	18,074
Appropriation to general reserve . . . . .	–	18,074	–	–	18,074
Appropriation to transaction risk reserve . . . . .	–	–	18,074	–	18,074
As at 31 December 2012 . . . . .	288,019	288,019	283,265	(16,486)	842,817
Changes in fair value recognised in other comprehensive income . . . . .	–	–	–	7,688	7,688
Appropriation to surplus reserve . . . . .	26,826	–	–	–	26,826
Appropriation to general reserve . . . . .	–	26,826	–	–	26,826
Appropriation to transaction risk reserve . . . . .	–	–	26,826	–	26,826
As at 31 December 2013 . . . . .	314,845	314,845	310,091	(8,798)	930,983

**(1) Surplus reserve**

Pursuant to *the PRC Company Law, the Company's Articles of Association*, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus 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.

**(2) General 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 Company appropriates 10% 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 Company appropriates 10% from its annual net profit to the transaction risk reserve.

## (3) Available-for-sale financial assets revaluation reserve

Fair value changes of available-for-sale financial assets for other comprehensive income are as below:

**The Group and the Company**

	Year ended 31 December 2011		
	Pre-tax amount	Income tax effect (Note 26)	After-tax net amount
Balance at the beginning of the year . . . . .	1,823	(456)	1,367
Changes in fair value for available-for-sale financial assets . . . . .	(55,053)	13,764	(41,289)
Reclassification adjustments for gains/(losses) included in profit or loss			
– Disposal . . . . .	(1,504)	376	(1,128)
Balance at the end of the year . . . . .	<u>(54,734)</u>	<u>13,684</u>	<u>(41,050)</u>

**The Group and the Company**

	Year ended 31 December 2012		
	Pre-tax amount	Income tax effect (Note 26)	After-tax net amount
Balance at the beginning of the year . . . . .	(54,734)	13,684	(41,050)
Changes in fair value for available-for-sale financial assets . . . . .	(5,484)	1,370	(4,114)
Reclassification adjustments for gains/(losses) included in profit or loss			
– Impairment . . . . .	6,301	(1,575)	4,726
– Disposal . . . . .	31,936	(7,984)	23,952
Balance at the end of the year . . . . .	<u>(21,981)</u>	<u>5,495</u>	<u>(16,486)</u>

**The Group**

	Year ended 31 December 2013		
	Pre-tax amount	Income tax effect (Note 26)	After-tax net amount
Balance at the beginning of the year . . . . .	(21,981)	5,495	(16,486)
Changes in fair value for available-for-sale financial assets . . . . .	(3,157)	788	(2,369)
Reclassification adjustments for gains/(losses) included in profit or loss			
– Impairment . . . . .	9,555	(2,388)	7,167
– Disposal . . . . .	10,810	(2,703)	8,107
Balance at the end of the year . . . . .	<u>(4,773)</u>	<u>1,192</u>	<u>(3,581)</u>

## The Company

	Year ended 31 December 2013		
	Pre-tax amount	Income tax effect (Note 26)	After-tax net amount
Balance at the beginning of the year . . . . .	(21,981)	5,495	(16,486)
Changes in fair value for available-for-sale financial assets . . . . .	(2,710)	677	(2,033)
Reclassification adjustments for gains/(losses) included in profit or loss			
– Impairment . . . . .	9,555	(2,388)	7,167
– Disposal . . . . .	3,406	(852)	2,554
Balance at the end of the year . . . . .	<u>(11,730)</u>	<u>2,932</u>	<u>(8,798)</u>

## 38 OTHER NON-CURRENT LIABILITIES

## The Company

	31 December 2011	31 December 2012	31 December 2013
Provisions . . . . .	–	–	25,300

Under the “Yanhuang No. 1” collective asset management scheme, the Company is obligated to compensate certain losses incurred by those investors who participated during the initial subscription period and hold the investments until maturity of the scheme, up to the amount of the Company’s share of net book value of the scheme. As at 31 December 2013, the Company recognised a provision amounting to RMB25.3 million according to management’s best estimate of the amount due under the Company’s obligation.

## 39 OTHER CURRENT LIABILITIES

## The Group

	31 December 2011	31 December 2012	31 December 2013
Interest payable . . . . .	2,553	2,734	17,390
Salaries, bonus, allowances and benefits <sup>(1)</sup> . . . . .	78,584	143,622	221,319
Risk provision relating to future brokerage business <sup>(2)</sup> . . . . .	4,943	6,891	9,549
Accounts payable . . . . .	40,813	28,827	110,155
Other payables . . . . .	25,090	20,511	18,119
Funds payable to securities issuers . . . . .	–	43,245	–
Others . . . . .	9,241	8,901	11,790
Total . . . . .	<u>161,224</u>	<u>254,731</u>	<u>388,322</u>



## The Company

	31 December 2011	31 December 2012	31 December 2013
Interest payable . . . . .	2,553	2,734	17,390
Salaries, bonus, allowances and benefits payables <sup>(1)</sup> . . . . .	76,710	137,540	201,454
Accounts payable . . . . .	40,813	28,827	109,896
Other payables . . . . .	24,412	19,851	15,085
Funds payable to securities issuers . . . . .	–	43,245	–
Others . . . . .	9,104	8,589	11,420
Total . . . . .	<u>153,592</u>	<u>240,786</u>	<u>355,245</u>

## (1) Payroll and welfare

## The Group

	1 January 2011	Current year charge	Current year payment	31 December 2011
Salaries and bonus . . . . .	186,232	212,657	(333,787)	65,102
Pension . . . . .	5	55,860	(55,864)	1
Other social security contributions . . . . .	–	43,798	(43,764)	34
Labour union funds and employee education funds . . . . .	8,924	9,521	(10,048)	8,397
Other welfare . . . . .	5,953	16,548	(17,451)	5,050
Total . . . . .	<u>201,114</u>	<u>338,384</u>	<u>(460,914)</u>	<u>78,584</u>

## The Group

	1 January 2012	Current year charge	Current year payment	31 December 2012
Salaries and bonus . . . . .	65,102	312,657	(253,075)	124,684
Pension . . . . .	1	47,735	(47,709)	27
Other social security contributions . . . . .	34	49,949	(49,958)	25
Labour union funds and employee education funds . . . . .	8,397	14,070	(8,515)	13,952
Other welfare . . . . .	5,050	16,079	(16,195)	4,934
Total . . . . .	<u>78,584</u>	<u>440,490</u>	<u>(375,452)</u>	<u>143,622</u>

## The Group

	1 January 2013	Current year charge	Current year payment	31 December 2013
Salaries and bonus . . . . .	124,684	386,315	(335,013)	175,986
Pension . . . . .	27	59,241	(38,532)	20,736
Other social security contributions . . . . .	25	45,092	(45,115)	2
Labour union funds and employee education funds . . . . .	13,952	16,173	(9,762)	20,363
Other welfare . . . . .	4,934	13,787	(14,489)	4,232
Total . . . . .	<u>143,622</u>	<u>520,608</u>	<u>(442,911)</u>	<u>221,319</u>

**The Company**

	<b>1 January 2011</b>	<b>Current year charge</b>	<b>Current year payment</b>	<b>31 December 2011</b>
Salaries and bonus . . . . .	185,712	202,894	(325,198)	63,408
Pension . . . . .	5	54,790	(54,794)	1
Other social security contributions . . . . .	–	41,484	(41,450)	34
Labour union funds and employee education funds . . . . .	8,869	9,130	(9,782)	8,217
Other welfare . . . . .	5,728	16,500	(17,178)	5,050
Total . . . . .	<u>200,314</u>	<u>324,798</u>	<u>(448,402)</u>	<u>76,710</u>

**The Company**

	<b>1 January 2012</b>	<b>Current year charge</b>	<b>Current year payment</b>	<b>31 December 2012</b>
Salaries and bonus . . . . .	63,408	296,197	(240,692)	118,913
Pension . . . . .	1	46,214	(46,206)	9
Other social security contributions . . . . .	34	47,966	(47,990)	10
Labour union funds and employee education funds . . . . .	8,217	13,329	(7,872)	13,674
Other welfare . . . . .	5,050	15,322	(15,438)	4,934
Total . . . . .	<u>76,710</u>	<u>419,028</u>	<u>(358,198)</u>	<u>137,540</u>

**The Company**

	<b>1 January 2013</b>	<b>Current year charge</b>	<b>Current year payment</b>	<b>31 December 2013</b>
Salaries and bonus . . . . .	118,913	336,800	(298,922)	156,791
Pension . . . . .	9	56,160	(35,433)	20,736
Other social security contributions . . . . .	10	40,800	(40,808)	2
Labour union funds and employee education funds . . . . .	13,674	15,156	(9,137)	19,693
Other welfare . . . . .	4,934	12,638	(13,340)	4,232
Total . . . . .	<u>137,540</u>	<u>461,554</u>	<u>(397,640)</u>	<u>201,454</u>

**(2) Risk provision relating to future brokerage business**

According to relevant regulations, Central China Futures Co., Ltd., a subsidiary of the Company, is required to set aside 5% of its net commission income as the risk provision relating to future brokerage business.

## 40 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

## The Group

	31 December 2011	31 December 2012	31 December 2013
“Yanhuang No. 1” . . . . .	–	–	472,504
“Yanhuang No. 2” . . . . .	–	–	21,912
“Alpha Phase I” . . . . .	–	–	4,221
“Lianmeng No. 6” . . . . .	–	–	208,800
Total . . . . .	<u>–</u>	<u>–</u>	<u>707,437</u>

In the consolidated financial statements, the financial liabilities arising from consolidation of SEs are designated at fair value through profit or loss by the Group because the Group has the obligation to pay other investors upon maturity dates of the SEs based on net book value and the related terms of those schemes (Note 3.2.5).

## 41 TAX PAYABLE

## The Group

	31 December 2011	31 December 2012	31 December 2013
Corporate income tax . . . . .	32,670	31,551	29,377
Individual income tax withheld . . . . .	9,128	102,052	48,651
Business tax and surcharges . . . . .	3,141	5,610	8,901
Others . . . . .	607	656	1,024
	<u>45,546</u>	<u>139,869</u>	<u>87,953</u>

## The Company

	31 December 2011	31 December 2012	31 December 2013
Corporate income tax . . . . .	31,774	30,090	27,432
Individual income tax withheld . . . . .	9,099	101,736	48,433
Business tax and surcharges . . . . .	2,967	5,334	8,548
Others . . . . .	548	557	441
	<u>44,388</u>	<u>137,717</u>	<u>84,854</u>

## 42 DUE TO OTHER FINANCIAL INSTITUTIONS

## The Group and the Company

	31 December 2011	31 December 2012	31 December 2013
Placements from China Securities Finance Corporation Limited . . . . .	–	–	400,000

During the year ended 31 December 2013, placements were obtained from China Securities Finance Corporation Limited with interest rates range between 5.8% and 8% per annum and are repayable within three months.

## 43 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

## The Group and the Company

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Analysed by asset type:			
– Debt securities . . . . .	1,903,940	1,758,905	2,096,288

## The Group and the Company

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Analysed by market:			
– Interbank market . . . . .	1,283,940	1,418,855	1,424,641
– Shanghai Stock Exchange . . . . .	620,000	340,050	671,647
Total . . . . .	<u>1,903,940</u>	<u>1,758,905</u>	<u>2,096,288</u>

## The Group and the Company

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Analysed by transaction type:			
– Pledged . . . . .	1,903,940	1,481,550	1,975,927
– Sold . . . . .	–	277,355	120,361
Total . . . . .	<u>1,903,940</u>	<u>1,758,905</u>	<u>2,096,288</u>

As at 31 December 2011, 2012 and 2013, the value of the financial assets held for trading and financial assets held under resale agreements that had been placed as financial assets sold under repurchase agreements of the Group and the Company were listed as below:

## The Group and the Company

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
<b>Pledged</b>			
Financial assets held for trading . . . . .	2,316,450	1,366,569	2,314,998
Financial assets held under resale agreements . . . . .	–	448,687	297,326
Subtotal . . . . .	<u>2,316,450</u>	<u>1,815,256</u>	<u>2,612,324</u>
<b>Sold</b>			
Financial assets held for trading . . . . .	–	271,493	118,532
Subtotal . . . . .	<u>–</u>	<u>271,493</u>	<u>118,532</u>
<b>Total</b> . . . . .	<u>2,316,450</u>	<u>2,086,749</u>	<u>2,730,856</u>

## 44 SHORT-TERM NOTES PAYABLE

On 14 October 2013, the Company issued 90-day short-term notes of RMB800 million paying interest at 5.35% per annum.

**45 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS**

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at clearing houses by the Group and the Company, and are interest bearing at the prevailing market interest rates.

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

As at 31 December 2012 and 2013, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB16.9 million and RMB142.3 million respectively, and are included in the Group's accounts payable to brokerage clients (31 December 2011: Nil).

**46 CASH AND CASH EQUIVALENTS**

For the purpose of statements of cash flows, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

**The Group**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Cash . . . . .	531	638	637
Bank deposits . . . . .	429,402	991,889	569,781
Proprietary clearing settlement funds . . . . .	14,300	40,683	185,034
Total . . . . .	<u>444,233</u>	<u>1,033,210</u>	<u>755,452</u>

**The Company**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Cash . . . . .	513	612	575
Bank deposits . . . . .	318,585	712,380	295,720
Proprietary clearing settlement funds . . . . .	14,300	40,683	185,034
Total . . . . .	<u>333,398</u>	<u>753,675</u>	<u>481,329</u>

**47 TRANSFERRED FINANCIAL ASSETS**

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

**(1) Repurchase transactions**

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received.

**(2) Securities lending**

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling, for which the customers provide the Group with collaterals that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

**The Group and the Company**

	31 December 2011		31 December 2012		31 December 2013	
	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 . . . . .	–	–	274,186	277,355	118,532	120,361
Securities lending . . . . .	–	–	5	–	7,337	–

**48 COMMITMENTS AND CONTINGENT LIABILITIES****(1) Capital commitments****The Group**

	31 December 2011	31 December 2012	31 December 2013
Contracted but not provided for . . . . .	8,270	7,191	15,243

**The Company**

	31 December 2011	31 December 2012	31 December 2013
Contracted but not provided for . . . . .	7,865	5,094	11,147

**(2) Operating lease commitments**

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

**The Group**

	31 December 2011	31 December 2012	31 December 2013
Within 1 year . . . . .	34,267	33,389	35,153
1 to 3 years . . . . .	47,899	41,037	36,115
Over 3 years . . . . .	38,851	29,163	19,411
Total . . . . .	121,017	103,589	90,679

**The Company**

	31 December 2011	31 December 2012	31 December 2013
Within 1 year . . . . .	33,466	32,080	30,892
1 to 3 years . . . . .	46,984	39,525	34,548
Over 3 years . . . . .	37,346	27,791	18,653
Total . . . . .	117,796	99,396	84,093

**(3) Legal proceedings**

From time to time in the ordinary course of business, the Group and the Company may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2011, 31 December 2012 and 31 December 2013, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings which the Group and the Company expect would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down.

**49 RELATED PARTY TRANSACTIONS****49.1 Related parties**

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

The below table lists the Group's significant related legal entities and the holdings of the Company's major shareholders as at 31 December 2013:

<u>Significant related legal persons</u>	<u>The relationship with the Group</u>	<u>Stock holding percentage</u>
Henan Investment Group	The controlling shareholder of the Company	44.85%
Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Major shareholder holding over 5% shares of the Company	29.90%
Anyang Iron & Steel Group Co., Ltd. (hereinafter "Angang Group")	Major shareholder holding over 5% shares of the Company	9.67%
Henan Venture Capital Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Henan Sky-Land Properties Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Henan Sky-Land Hotel Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Commercial Bank of Kaifeng Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Central China Trust Co., Ltd.	Controlled by the controlling shareholder of the Company	–

**49.2 Related party transactions and balances****49.2.1 The Company's controlling shareholder – Henan Investment Group***Transactions during the year*

	<u>Year ended 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Income from providing securities brokerage services . . . . .	171	20	–
Income from research services . . . . .	–	58	8
Income from financial assets held for trading <sup>(1)</sup> . . . . .	508	451	272
	<u>          </u>	<u>          </u>	<u>          </u>

*Balances at the end of the year*

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Financial assets held for trading <sup>(1)</sup> . . . . .	9,713	9,921	–
	<u>          </u>	<u>          </u>	<u>          </u>

<sup>(1)</sup> The Group purchased medium-term notes issued by Henan Investment Group.



## 49.2.2 Other major shareholders holding over 5% shares of the Company

## Transactions during the year

		Year ended 31 December		
		2011	2012	2013
Angang Group. . . . .	Income from providing investment advisory and consultancy services	3,000	-	-

## Balances at the end of the year

		Year ended 31 December		
		2011	2012	2013
Angang Group. . . . .	Receivables	200	200	-

## 49.2.3 Enterprise controlled by the controlling shareholder of the Company

## Transactions during the year

		Year ended 31 December		
		2011	2012	2013
Henan Sky-Land Properties Co., Ltd. . . . .	Gain on disposal of buildings <sup>(1)</sup>	35,660	-	-
Henan Sky-Land Hotel Co., Ltd. . . . .	Other operating expenses	-	-	50
Commercial Bank of Kaifeng Co., Ltd.. . . . .	Interest income	-	13,269	1,190
Central China Trust Co., Ltd.. . . . .	Income from securities brokerage services and distribution of financial products <sup>(2)</sup>	475	-	2,530
Henan Venture Capital Co., Ltd. . . . .	Income from securities brokerage services	34	87	-

## Balances at the end of the year

		Year ended 31 December		
		2011	2012	2013
Commercial Bank of Kaifeng Co., Ltd. . . . .	Bank deposits	89,650	250,000	-
Commercial Bank of Kaifeng Co., Ltd. . . . .	Interest receivable	-	13,062	-
Henan Sky-Land Hotel Co., Ltd.. . . . .	Prepayments	-	-	900

- (1) Disposal of property to Henan Sky-Land Properties Co., Ltd.

In December 2011, the Group sold certain foreclosed properties to Henan Sky-Land Properties Co., Ltd. (a wholly owned subsidiary of Henan Investment Group) for a consideration of RMB109.7 million, and recorded a net realised gain of RMB35.7 million.

- (2) Income from rendering services to Central China Trust Co., Ltd.

For the year ended 31 December 2013, the Group acted as an agent for Central China Trust Co., Ltd. selling its trust schemes and recognised commission income of RMB2.53 million.

**49.2.4 Subsidiaries and consolidated structured entities***Transactions during the year*

	Year ended 31 December		
	2011	2012	2013
Income from providing services . . . . .	694	977	9,439
Interest income . . . . .	–	–	182
Expense from receiving services . . . . .	–	36	258
Lease income received . . . . .	360	446	531
	<u>          </u>	<u>          </u>	<u>          </u>

*Balances at the end of the year*

	Year ended 31 December		
	2011	2012	2013
Refundable deposits . . . . .	–	27,315	187,022
Clearing settlement funds . . . . .	–	31,420	102,129
Available-for-sale financial assets . . . . .	–	–	124,357
Accounts payable to brokerage clients . . . . .	–	–	1,616
Receivables . . . . .	–	147	1,235
	<u>          </u>	<u>          </u>	<u>          </u>

Significant balances and transactions between subsidiaries and consolidated structured entities set out above have been eliminated in the consolidated financial statements.

**49.2.5 Key management personnel**

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, board of supervisors and other members of the senior management.

	Year ended 31 December		
	2011	2012	2013
Key management compensation . . . . .	12,243	19,595	15,219
	<u>          </u>	<u>          </u>	<u>          </u>

**50 SEGMENT ANALYSIS**

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- (a) Securities brokerage: securities trading and brokering services;
- (b) Futures brokerage: futures trading and brokering and futures information advisory and training services;
- (c) Margin trading and securities lending: margin trading and securities lending services;
- (d) Investment banking: corporate finance and financial advisory services to institutional clients;
- (e) Proprietary trading: trading in financial products;
- (f) Investments and asset management: direct investments and funds related businesses, in addition to portfolio management and maintenance, investment advisory and transaction execution services;
- (g) Other businesses: including headquarters operations and interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

The Group mainly operates in Henan Province, the PRC.

## Year ended 31 December 2011

	Securities brokerage	Futures brokerage	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
<b>Total revenue and other income</b>								
Commission and fee income . . . . .	703,520	27,339	74,470	–	17,333	–	(694)	821,968
– external . . . . .	702,826	27,339	74,470	–	17,333	–	–	821,968
– internal . . . . .	694	–	–	–	–	–	(694)	–
Interest income . . . . .	99	6,205	–	8,330	–	119,340	–	133,974
Net investment loss . . . . .	–	–	–	(62,144)	–	–	–	(62,144)
Other gains/(losses) . . . . .	2,492	1,126	–	634	–	68,615	(360)	72,507
– external . . . . .	2,492	1,126	–	634	–	68,255	–	72,507
– internal . . . . .	–	–	–	–	–	360	(360)	–
<b>Total expenses . . . . .</b>	<b>(526,463)</b>	<b>(31,071)</b>	<b>(87,766)</b>	<b>(17,425)</b>	<b>(15,062)</b>	<b>(152,548)</b>	<b>1,054</b>	<b>(829,281)</b>
<b>Profit before income tax . . . . .</b>	<b>179,648</b>	<b>3,599</b>	<b>(13,296)</b>	<b>(70,605)</b>	<b>2,271</b>	<b>35,407</b>	<b>–</b>	<b>137,024</b>
<b>Total assets . . . . .</b>	<b>335,286</b>	<b>390,815</b>	<b>14,089</b>	<b>4,725,235</b>	<b>57,608</b>	<b>8,492,521</b>	<b>(3,028,234)</b>	<b>10,987,320</b>
<b>Total liabilities . . . . .</b>	<b>41,481</b>	<b>274,150</b>	<b>40,182</b>	<b>4,742,260</b>	<b>61,370</b>	<b>5,098,023</b>	<b>(2,896,990)</b>	<b>7,360,476</b>
<b>Supplemental information</b>								
Depreciation and amortisation . . . . .	42,809	1,971	138	888	168	20,937	–	66,911
Capital expenditure . . . . .	57,458	1,968	–	258	50	11,035	–	70,769

## Year ended 31 December 2012

	Securities brokerage	Futures brokerage	Margin trading and securities lending	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
<b>Total revenue and other income</b>									
Commission and fee income . . . . .	490,884	38,966	1,694	172,609	–	33,870	204	(1,014)	737,213
– external . . . . .	489,906	38,930	1,694	172,609	–	33,870	204	–	737,213
– internal . . . . .	978	36	–	–	–	–	–	(1,014)	–
Interest income . . . . .	10	10,831	4,447	–	4,582	3,514	119,414	–	142,798
Net investment gain/(loss) . . . . .	–	–	–	–	319,343	1,941	36	36	321,356
– external . . . . .	–	–	–	–	319,379	1,941	36	–	321,356
– internal . . . . .	–	–	–	–	(36)	–	–	36	–
Other gains/(losses) . . . . .	3,071	220	–	200	196	–	13,841	(445)	17,083
– external . . . . .	3,071	220	–	200	196	–	13,396	–	17,083
– internal . . . . .	–	–	–	–	–	–	445	(445)	–
<b>Total expenses . . . . .</b>	<b>(443,870)</b>	<b>(41,397)</b>	<b>(4,420)</b>	<b>(160,547)</b>	<b>(102,433)</b>	<b>(37,640)</b>	<b>(172,462)</b>	<b>1,423</b>	<b>(961,346)</b>
<b>Profit before income tax . . . . .</b>	<b>50,095</b>	<b>8,620</b>	<b>1,721</b>	<b>12,262</b>	<b>221,688</b>	<b>1,685</b>	<b>(38,967)</b>	<b>–</b>	<b>257,104</b>
<b>Total assets . . . . .</b>	<b>476,191</b>	<b>617,330</b>	<b>248,904</b>	<b>66,390</b>	<b>4,077,184</b>	<b>286,739</b>	<b>8,501,100</b>	<b>(3,070,354)</b>	<b>11,203,484</b>
<b>Total liabilities . . . . .</b>	<b>89,420</b>	<b>494,364</b>	<b>291,804</b>	<b>63,768</b>	<b>4,069,394</b>	<b>76,974</b>	<b>5,004,558</b>	<b>(2,725,455)</b>	<b>7,364,827</b>
<b>Supplemental information</b>									
Depreciation and amortisation . . . . .	33,796	1,839	194	364	466	114	21,020	–	57,793
Capital expenditure . . . . .	33,036	2,563	–	539	324	1,320	26,074	–	63,856

Year ended 31 December 2013

	Securities brokerage	Futures brokerage	Margin trading and securities lending	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
<b>Total revenue and other income</b>									
Commission and fee income . . . . .	674,852	53,150	38,880	164,856	1,360	21,407	163	(1,336)	953,332
– external . . . . .	673,774	52,892	38,880	164,856	1,360	21,407	163	–	953,332
– internal . . . . .	1,078	258	–	–	–	–	–	(1,336)	–
Interest income . . . . .	52	12,333	116,915	–	12,425	13,554	131,558	(181)	286,656
– external . . . . .	52	12,333	116,915	–	12,425	13,554	131,377	–	286,656
– internal . . . . .	–	–	–	–	–	–	181	(181)	–
Net investment gain/(loss) . . . . .	–	–	–	–	184,112	(25,743)	–	258	158,627
– external . . . . .	–	–	–	–	184,370	(25,743)	–	–	158,627
– internal . . . . .	–	–	–	–	(258)	–	–	258	–
Other gains/(losses) . . . . .	4,138	1,108	–	–	6,059	8,257	16,953	(531)	35,984
– external . . . . .	4,138	1,108	–	–	6,059	8,257	16,422	–	35,984
– internal . . . . .	–	–	–	–	–	–	531	(531)	–
<b>Total expenses</b> . . . . .	<b>(472,305)</b>	<b>(53,760)</b>	<b>(67,682)</b>	<b>(127,830)</b>	<b>(120,527)</b>	<b>(78,064)</b>	<b>(177,986)</b>	<b>1,790</b>	<b>(1,096,364)</b>
<b>Profit before income tax</b> . . . . .	<b>206,737</b>	<b>12,831</b>	<b>88,113</b>	<b>37,026</b>	<b>83,429</b>	<b>(60,589)</b>	<b>(29,312)</b>	<b>–</b>	<b>338,235</b>
<b>Total assets</b> . . . . .	<b>138,492</b>	<b>772,998</b>	<b>2,458,504</b>	<b>21,403</b>	<b>3,520,890</b>	<b>1,312,881</b>	<b>9,713,656</b>	<b>(4,289,219)</b>	<b>13,649,605</b>
<b>Total liabilities</b> . . . . .	<b>104,959</b>	<b>640,610</b>	<b>3,296,788</b>	<b>32,004</b>	<b>3,513,047</b>	<b>975,231</b>	<b>4,763,272</b>	<b>(3,851,588)</b>	<b>9,474,323</b>
<b>Supplemental information</b>									
Depreciation and amortisation. . . . .	40,759	2,525	647	583	647	4,434	17,521	–	67,116
Capital expenditure . . . . .	16,949	3,741	–	64	1,574	26,537	116,999	–	165,864

## 51 FINANCIAL RISK MANAGEMENT

### 51.1 Summary

The Group and the Company's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group and the Company, so as to maximise the shareholders' value. The Group and the Company's risk management strategy is to identify and analyse a variety of risks to which the Group and the Company are exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Operating risks to which the Group and the Company are exposed to mainly include: credit risk, market risk and liquidity risk. The Group and the Company have adopted risk management policies and procedures to identify and analyse these risks and defined appropriate risk indicators, risk limits, risk policies and internal control procedures, and constantly monitor and manage risks through its IT systems.

The risk management framework is structured into four levels consisting of (i) Board and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department; and (iv) Business and management departments and branch outlets.

#### *Level 1: Board and Supervisory Committee*

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for establishing a compliant and effective risk control environment. The Board is responsible for developing the Company's overall risk control objectives, risk control policies and internal control system, improving the governance structure and tiered authority delegation system, and setting objectives, limits and delegating authority to relevant administrative departments in the actual performance of risk control activities.

The Supervisory Committee focuses on mitigating the Company's exposure to legal and compliance risks and financial oversight, including monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons, safeguarding the Company's assets, and minimizing financial and legal risks the Company faces in carrying out its business operations, so as to protect legal rights and interests of the Company and its shareholders.

***Level 2: Risk Control Committee, Audit Committee and Investment Decision Committee***

Risk Control Committee, Audit Committee and Investment Decision Committee are the second level of the Company's risk control framework, and is responsible for preparing the comprehensive annual report on risk control; reviewing risk control strategies and significant risk control solutions; reviewing judgment criteria for major decisions, significant risks, major events and key business processes and the risk evaluation report for major decision-making; reviewing risk control evaluation report submitted by the Risk Management Department; reviewing the organisational structure and roles and responsibilities for risk control, as well as other matters delegated by the Board.

***Level 3: Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department***

At the third level of the Company's risk control framework is the collaborative comprehensive risk management arrangement through which the Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department work together to manage risks.

The Compliance Management (Legal Affairs) Department assists the Chief Compliance Officer to formulate compliance policies and compliance rules and procedures, supports the implementation of compliance policies and procedures, provides recommendations and advice on compliance to the management and business departments, business lines and branch outlets, and monitors compliance with laws and regulations in the Company's business and management activities. It also drives business departments, business lines and the Company's branch outlets to evaluate, develop, revise, update and improve their internal procedures and business processes to reflect changes in the laws, regulations and standards; conducts compliance pre-clearance on internal management rules and procedures, major decisions, new products, new business offerings and major business activities; reports to regulatory authorities on a regular and extraordinary basis, in addition to mitigating legal risks to which the Company and its businesses are exposed to.

Risk Management Department carries out risk control activities in accordance with risk control objectives and policies laid down by the Board of Directors; provides recommendations to the Risk Management Committee for improving the Company's risk control environment in terms of risk control policies, objectives, corporate governance structure and internal controls; formulates risk management rules and procedures for the Company, supports the review of risk management rules and procedures, measures, risk management processes and risk control indicators developed by each business and management departments, and continuously supplements, improves and updates risk control policies to help establish sound comprehensive corporate risk control mechanisms across the Company; identifies, assesses, and monitors various risks in business operations and transactions, and leverages the results to improve the end-to-end risk response process that covers every components of risk control, including policies, identification, assessment and measurement, control, monitoring, reporting and analysis; regularly tests, monitors and evaluates the implementation of risk control rules and procedures across the Company, and when necessary, conducts regular and *ad hoc* inspections on risk control results, follows up on issues identified and launches reporting procedures where appropriate; and establishes communications and cooperation with respect to risk control with various business lines, business departments, and branch outlets.

Internal Audit Department has overall responsibility for the internal audit, including organising comprehensive audits across the Company, monitoring the implementation of and compliance with internal control rules and procedures, minimizing ethical and policy risks and assisting the investigation of emergencies.

***Level 4: Business and management departments and branch outlets***

The fourth level of risk control is the front-line risk control systems by business and management departments and branch outlets, which are responsible for developing their own internal control system and risk control measures, ensuring proper risk control within their jurisdiction, and reporting risk issues in a timely manner to the Risk Management Department or Compliance Management (Legal Affairs) Department.

The Group and the Company adopt the above risk management framework and continuously improve their risk control to ensure that the risks are measurable and controlled within acceptable limits.

## 51.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. The Group and the Company's credit risks mainly come from financial assets which include bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held for trading, financial assets held under resale agreements, available-for-sale financial assets, margin accounts receivable, other current assets and refundable deposits.

The Group and the Company's bank balances are mainly deposited with state-owned commercial banks or joint-stock commercial banks, while clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited ("CSDCC"), with a relatively low level of credit risk.

In terms of proprietary trading, if the transaction is through a stock exchange or CSDCC, the default risk of counterparty is low, but for inter-bank market transactions, the Group will assess the counterparties and only select those with acceptable credit rating. The Group invests in debt securities with acceptable credit ratings and monitors the operations and credit ratings of the issuers.

Margin financing assets include advances to margin customers and securities lent to customers. Credit risks associated with these financial assets mainly relate to customers' inability to repay the principal, interest or securities borrowed. The Group and the Company supervise finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivables are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance. As of 31 December 2012 and 2013, the Group and the Company's collateral value is sufficient to mitigate the credit risk in margin financing.

The Group and the Company's credit risk also arises from the securities and futures brokerage business. If a customer fails to deposit sufficient trading funds, the Group and the Company may use their own funds to complete the settlement. The Group and the Company require customers to deposit all cash required in trading before they settle on behalf of customers, so as to mitigate and manage the credit risk properly.

The Group invests in the wealth management products with proper approval process.

### (1) Maximum credit risk exposure

Before considering collateral or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure of the Group and the Company is as follows:

#### The Group

	<u>31 December 2011</u>	<u>31 December 2012</u>	<u>31 December 2013</u>
Refundable deposits . . . . .	199,694	272,743	412,988
Other current assets . . . . .	156,459	176,399	118,364
Margin accounts receivable . . . . .	–	210,817	2,259,463
Available-for-sale financial assets			
– Securities lent to clients . . . . .	–	5	7,337
– Wealth management products . . . . .	–	–	75,049
– Trust scheme . . . . .	–	–	257,300
Financial assets held under resale agreements .	860,000	498,350	793,086
Financial assets held for trading			
– Debt securities . . . . .	3,338,349	2,989,676	2,906,360
Clearing settlement funds . . . . .	511,729	662,316	1,104,844
Cash held for brokerage clients . . . . .	4,593,042	4,369,765	3,962,749
Bank balances . . . . .	432,566	997,015	569,781
Total . . . . .	<u>10,091,839</u>	<u>10,177,086</u>	<u>12,467,321</u>

**The Company**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Refundable deposits . . . . .	109,952	107,863	198,672
Other current assets . . . . .	185,045	182,512	114,160
Margin accounts receivable . . . . .	–	210,817	2,259,463
Available-for-sale financial assets			
– Securities lent to clients . . . . .	–	5	7,337
Financial assets held under resale agreements .	860,000	498,350	625,986
Financial assets held for trading			
– Debt securities . . . . .	3,338,349	2,989,676	2,887,401
Clearing settlement funds . . . . .	422,761	509,977	994,425
Cash held for brokerage clients . . . . .	4,498,967	4,259,042	3,715,944
Bank balances . . . . .	321,749	717,506	295,720
Total . . . . .	<u>9,736,823</u>	<u>9,475,748</u>	<u>11,099,108</u>

**(2) Rating distribution of debt securities investments**

The Group monitors the credit risk profile of the debt securities portfolio held based on credit ratings, which are obtained from major rating agencies in the country where debt issuers are located.

**The Group and Company**

	<b>Financial assets held for trading</b>
31 December 2011	
AAA . . . . .	446,449
AA- to AA+ . . . . .	2,588,178
A- to A+ . . . . .	288,357
Unrated . . . . .	15,365
Total . . . . .	<u>3,338,349</u>

**The Group and Company**

	<b>Financial assets held for trading</b>
31 December 2012	
AAA . . . . .	141,850
AA- to AA+ . . . . .	2,717,449
A- to A+ . . . . .	10,014
Unrated . . . . .	120,363
Total . . . . .	<u>2,989,676</u>



**The Group**

	<b>Financial assets held for trading</b>
31 December 2013	
AAA . . . . .	250,937
AA- to AA+ . . . . .	2,438,760
A- to A+ . . . . .	109,950
Unrated . . . . .	106,713
	<hr/>
Total . . . . .	2,906,360
	<hr/> <hr/>

**The Company**

	<b>Financial assets held for trading</b>
31 December 2013	
AAA . . . . .	250,937
AA- to AA+ . . . . .	2,419,801
A- to A+ . . . . .	109,950
Unrated . . . . .	106,713
	<hr/>
Total . . . . .	2,887,401
	<hr/> <hr/>

**(3) Allowance analysis for financial assets in other current assets****The Group**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Individually assessed and impaired gross amount . . . . .	20,200	18,058	19,053
Impairment allowance . . . . .	(20,200)	(18,058)	(19,053)
	<hr/>	<hr/>	<hr/>
<b>Subtotal</b> . . . . .	–	–	–
Collectively assessed and impaired gross amount . . . . .	45,574	86,295	39,784
Impairment allowance . . . . .	(2,481)	(5,283)	(2,177)
	<hr/>	<hr/>	<hr/>
<b>Subtotal</b> . . . . .	43,093	81,012	37,607
Overdue but not impaired . . . . .	–	–	–
Neither overdue nor impaired . . . . .	113,366	95,387	80,757
	<hr/>	<hr/>	<hr/>
<b>Total</b> . . . . .	156,459	176,399	118,364
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**The Company**

	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013</b>
Individually assessed and impaired gross amount . . . . .	20,200	18,058	19,053
Impairment allowance . . . . .	(20,200)	(18,058)	(19,053)
<b>Subtotal</b> . . . . .	<b>–</b>	<b>–</b>	<b>–</b>
Collectively assessed and impaired gross amount . . . . .	75,253	94,911	36,143
Impairment allowance . . . . .	(3,574)	(7,717)	(2,145)
<b>Subtotal</b> . . . . .	<b>71,679</b>	<b>87,194</b>	<b>33,998</b>
Overdue but not impaired . . . . .	–	–	–
Neither overdue nor impaired . . . . .	113,366	95,318	80,162
<b>Total</b> . . . . .	<b>185,045</b>	<b>182,512</b>	<b>114,160</b>

**51.3 Market risk***Summary*

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to interest rate risk, currency risk or price risk.

*51.3.1 Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Company utilise sensitivity analysis as the main tool for monitoring interest rate risk and measuring the impact of a reasonable and possible change of interest rate on its total profit and equity, assuming all other variables remain unchanged. Debt securities of the Group and the Company mainly comprise corporate bonds, and the Group and the Company mitigate the interest rate risk through optimizing the duration and convexity of its bond portfolio. Interest rate risk in connection with cash held for brokerage customers in bank balances and clearing settlement funds is offset by the associated accounts payable to brokerage clients because their terms match with each other.

The table below presents the residual maturities of the Group and the Company's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

**The Group**

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2011							
Financial assets							
Cash and bank balances . . . . .	402,566	–	30,000	–	–	531	433,097
Cash held for brokerage customers . . . . .	4,593,042	–	–	–	–	–	4,593,042
Clearing settlement funds . . . . .	511,729	–	–	–	–	–	511,729
Financial assets held for trading . . . . .	55,246	342,404	303,252	957,447	1,684,921	14,779	3,358,049
Financial assets held under resale agreements . . . . .	860,000	–	–	–	–	–	860,000
Refundable deposits . . . . .	109,952	–	–	–	–	89,742	199,694
Other current assets . . . . .	–	–	–	–	–	156,459	156,459
Available-for-sale financial assets . . . . .	–	–	–	–	–	429,268	429,268
<b>Sub-total . . . . .</b>	<b>6,532,535</b>	<b>342,404</b>	<b>333,252</b>	<b>957,447</b>	<b>1,684,921</b>	<b>690,779</b>	<b>10,541,338</b>
Financial liabilities							
Financial assets sold under repurchase agreements . . . . .							
	(1,903,940)	–	–	–	–	–	(1,903,940)
Accounts payable to brokerage clients . . . . .	(4,984,405)	–	–	–	–	(265,361)	(5,249,766)
Other current liabilities . . . . .	–	–	–	–	–	(68,456)	(68,456)
<b>Sub-total . . . . .</b>	<b>(6,888,345)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(333,817)</b>	<b>(7,222,162)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(355,810)</b>	<b>342,404</b>	<b>333,252</b>	<b>957,447</b>	<b>1,684,921</b>	<b>356,962</b>	<b>2,962,214</b>

**The Group**

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2012							
Financial assets							
Cash and bank balances . . . . .	357,015	190,000	450,000	–	–	638	997,653
Cash held for brokerage customers . . . . .	4,369,765	–	–	–	–	–	4,369,765
Clearing settlement funds . . . . .	662,316	–	–	–	–	–	662,316
Financial assets held for trading . . . . .	105,096	52,000	151,272	1,282,493	1,503,911	304,767	3,399,539
Financial assets held under resale agreements . . . . .	453,687	–	44,663	–	–	–	498,350
Refundable deposits . . . . .	80,548	–	–	–	–	192,195	272,743
Other current assets . . . . .	–	–	–	30,000	–	146,399	176,399
Available-for-sale financial assets . . . . .	–	–	5	–	–	171,913	171,918
Margin accounts receivable . . . . .	3,319	27,998	179,500	–	–	–	210,817
<b>Sub-total . . . . .</b>	<b>6,031,746</b>	<b>269,998</b>	<b>825,440</b>	<b>1,312,493</b>	<b>1,503,911</b>	<b>815,912</b>	<b>10,759,500</b>
Financial liabilities							
Financial assets sold under repurchase agreements . . . . .							
	(1,758,905)	–	–	–	–	–	(1,758,905)
Accounts payable to brokerage clients . . . . .	(4,788,289)	–	–	–	–	(420,279)	(5,208,568)
Other current liabilities . . . . .	(43,245)	–	–	–	–	(52,072)	(95,317)
<b>Sub-total . . . . .</b>	<b>(6,590,439)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(472,351)</b>	<b>(7,062,790)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(558,693)</b>	<b>269,998</b>	<b>825,440</b>	<b>1,312,493</b>	<b>1,503,911</b>	<b>343,561</b>	<b>3,353,149</b>

## The Group

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2013							
Financial assets							
Cash and bank balances . . . . .	381,559	88,222	100,000	–	–	637	570,418
Cash held for brokerage customers . . . . .	3,962,749	–	–	–	–	–	3,962,749
Clearing settlement funds . . . . .	1,104,844	–	–	–	–	–	1,104,844
Financial assets held for trading . . . . .	287,150	100,037	196,749	1,033,283	1,546,340	275,435	3,438,994
Financial assets held under resale agreements . . . . .	474,714	61,327	227,045	30,000	–	–	793,086
Refundable deposits . . . . .	187,592	–	–	–	–	225,396	412,988
Other current assets . . . . .	–	–	–	–	–	118,364	118,364
Available-for-sale financial assets . . . . .	688	75,125	263,873	–	–	91,484	431,170
Margin accounts receivable . . . . .	81,571	315,444	1,862,448	–	–	–	2,259,463
<b>Sub-total . . . . .</b>	<b>6,480,867</b>	<b>640,155</b>	<b>2,650,115</b>	<b>1,063,283</b>	<b>1,546,340</b>	<b>711,316</b>	<b>13,092,076</b>
Financial liabilities							
Short-term notes payable . . . . .	(800,000)	–	–	–	–	–	(800,000)
Due to other financial institutions . . . . .	–	(400,000)	–	–	–	–	(400,000)
Financial assets sold under repurchase agreements . . . . .	(1,701,591)	(394,697)	–	–	–	–	(2,096,288)
Accounts payable to brokerage clients . . . . .	(4,459,388)	–	–	–	–	(534,683)	(4,994,071)
Other current liabilities . . . . .	–	–	–	–	–	(145,664)	(145,664)
Financial liabilities designated at fair value through profit or loss . . . . .	–	–	–	–	–	(707,437)	(707,437)
<b>Sub-total . . . . .</b>	<b>(6,960,979)</b>	<b>(794,697)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,387,784)</b>	<b>(9,143,460)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(480,112)</b>	<b>(154,542)</b>	<b>2,650,115</b>	<b>1,063,283</b>	<b>1,546,340</b>	<b>(676,468)</b>	<b>4,625,084</b>

## The Company

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2011							
Financial assets							
Cash and bank balances . . . . .	321,749	–	–	–	–	513	322,262
Cash held for brokerage customers . . . . .	4,498,967	–	–	–	–	–	4,498,967
Clearing settlement funds . . . . .	422,761	–	–	–	–	–	422,761
Financial assets held for trading . . . . .	55,246	342,404	303,252	957,447	1,684,921	14,779	3,358,049
Financial assets held under resale agreements . . . . .	860,000	–	–	–	–	–	860,000
Refundable deposits . . . . .	109,952	–	–	–	–	–	109,952
Other current assets . . . . .	–	–	–	–	–	185,045	185,045
Available-for-sale financial assets . . . . .	–	–	–	–	–	427,868	427,868
Investments in subsidiaries . . . . .	–	–	–	–	–	109,562	109,562
<b>Sub-total . . . . .</b>	<b>6,268,675</b>	<b>342,404</b>	<b>303,252</b>	<b>957,447</b>	<b>1,684,921</b>	<b>737,767</b>	<b>10,294,466</b>
Financial liabilities							
Financial assets sold under repurchase agreements . . . . .	(1,903,940)	–	–	–	–	–	(1,903,940)
Accounts payable to brokerage clients . . . . .	(4,984,405)	–	–	–	–	–	(4,984,405)
Other current liabilities . . . . .	–	–	–	–	–	(67,778)	(67,778)
<b>Sub-total . . . . .</b>	<b>(6,888,345)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(67,778)</b>	<b>(6,956,123)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(619,670)</b>	<b>342,404</b>	<b>303,252</b>	<b>957,447</b>	<b>1,684,921</b>	<b>669,989</b>	<b>2,668,354</b>

## The Company

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2012							
Financial assets							
Cash and bank balances . . . . .	147,506	120,000	450,000	–	–	612	718,118
Cash held for brokerage customers . . . . .	4,259,042	–	–	–	–	–	4,259,042
Clearing settlement funds . . . . .	509,977	–	–	–	–	–	509,977
Financial assets held for trading . . . . .	105,096	52,000	151,272	1,282,493	1,503,911	304,767	3,399,539
Financial assets held under resale							
agreements . . . . .	453,687	–	44,663	–	–	–	498,350
Refundable deposits . . . . .	80,548	–	–	–	–	27,315	107,863
Other current assets . . . . .	–	–	–	–	–	182,512	182,512
Available-for-sale financial assets . . . . .	–	–	5	–	–	150,513	150,518
Investments in subsidiaries . . . . .	–	–	–	–	–	309,562	309,562
Margin accounts receivable . . . . .	3,319	27,998	179,500	–	–	–	210,817
<b>Sub-total . . . . .</b>	<b>5,559,175</b>	<b>199,998</b>	<b>825,440</b>	<b>1,282,493</b>	<b>1,503,911</b>	<b>975,281</b>	<b>10,346,298</b>
Financial liabilities							
Financial assets sold under repurchase							
agreements . . . . .	(1,758,905)	–	–	–	–	–	(1,758,905)
Accounts payable to brokerage clients . . . . .	(4,788,289)	–	–	–	–	–	(4,788,289)
Other current liabilities . . . . .	(43,245)	–	–	–	–	(51,412)	(94,657)
<b>Sub-total . . . . .</b>	<b>(6,590,439)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(51,412)</b>	<b>(6,641,851)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(1,031,264)</b>	<b>199,998</b>	<b>825,440</b>	<b>1,282,493</b>	<b>1,503,911</b>	<b>923,869</b>	<b>2,780,578</b>

## The Company

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2013							
Financial assets							
Cash and bank balances . . . . .	295,720	–	–	–	–	575	296,295
Cash held for brokerage customers . . . . .	3,715,944	–	–	–	–	–	3,715,944
Clearing settlement funds . . . . .	994,425	–	–	–	–	–	994,425
Financial assets held for trading . . . . .	35,001	100,037	196,749	1,033,283	1,527,381	132,971	3,025,422
Financial assets held under resale							
agreements . . . . .	307,614	61,327	227,045	30,000	–	–	625,986
Refundable deposits . . . . .	187,174	–	–	–	–	11,498	198,672
Other current assets . . . . .	–	–	–	–	–	114,160	114,160
Available-for-sale financial assets . . . . .	688	76	6,573	–	–	167,468	174,805
Investments in subsidiaries . . . . .	–	–	–	–	–	411,562	411,562
Margin accounts receivable . . . . .	81,571	315,444	1,862,448	–	–	–	2,259,463
<b>Sub-total . . . . .</b>	<b>5,618,137</b>	<b>476,884</b>	<b>2,292,815</b>	<b>1,063,283</b>	<b>1,527,381</b>	<b>838,234</b>	<b>11,816,734</b>
Financial liabilities							
Short-term notes payable . . . . .							
Due to other financial institutions . . . . .	(800,000)	–	–	–	–	–	(800,000)
Financial assets sold under repurchase							
agreements . . . . .	(1,701,591)	(394,697)	–	–	–	–	(2,096,288)
Accounts payable to brokerage clients . . . . .	(4,459,388)	–	–	–	–	–	(4,459,388)
Other current liabilities . . . . .	–	–	–	–	–	(142,371)	(142,371)
<b>Sub-total . . . . .</b>	<b>(6,960,979)</b>	<b>(794,697)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(142,371)</b>	<b>(7,898,047)</b>
<b>Interest rate sensitivity gap . . . . .</b>	<b>(1,342,842)</b>	<b>(317,813)</b>	<b>2,292,815</b>	<b>1,063,283</b>	<b>1,527,381</b>	<b>695,863</b>	<b>3,222,824</b>

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and interest-bearing liabilities. A 100 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in net interest income, while a negative result indicates otherwise, and the impact attributable to other investors of the consolidated structured entities is eliminated.

**The Group**

	Year ended 31 December		
	2011	2012	2013
Net interest income			
Increases by 100bps . . . . .	710	12	(146)
Decreases by 100bps . . . . .	(710)	(12)	146

**The Company**

	Year ended 31 December		
	2011	2012	2013
Net interest income			
Increases by 100bps . . . . .	(1,974)	(5,167)	(6,968)
Decreases by 100bps . . . . .	1,974	5,167	6,968

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-earning assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are repriced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extent;
- necessary measures that may be adopted by the Group and the Company in response to interest rate changes not considered.

**51.3.2 Currency risk**

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

The Group's and the Company's currency risk primarily relates to the Group's and Company's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The foreign currency assets and liabilities held by the Group and the Company are not material compared to the total assets and liabilities. In terms of the Group's and Company's revenue structure, the majority of the business transactions are denominated in RMB, with only insignificant revenue from foreign currency transactions. The Group and the Company consider that their currency risk is immaterial.

**51.3.3 Price risk**

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

The Group's price risk exposure mainly relates to investments in equity securities, investment funds, convertible bonds, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The Group is subject to relatively high market risk due to the high volatility of the domestic stock markets.

The Group's and the Company's price risk management policy requires setting and managing investment objectives. The directors of the Company manage price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. The Group uses derivatives contracts to economically hedge against certain exposures arising from its investment portfolio.

*Sensitivity analysis*

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of stocks, funds, convertible bonds, derivatives and collective asset management schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

**The Group**

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Profit before income tax			
Increase by 10% . . . . .	7,472	39,807	35,707
Decrease by 10% . . . . .	(72,043)	(113,638)	(65,108)
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Other comprehensive income before income tax			
Increase by 10% . . . . .	48,174	20,360	5,873
Decrease by 10% . . . . .	(48,174)	(20,360)	(5,873)



## The Company

	Year ended 31 December		
	2011	2012	2013
Profit before income tax			
Increase by 10% . . . . .	7,472	39,807	33,150
Decrease by 10% . . . . .	(72,043)	(113,638)	(62,551)
	Year ended 31 December		
	2011	2012	2013
Other comprehensive income before income tax			
Increase by 10% . . . . .	48,174	20,360	22,688
Decrease by 10% . . . . .	(48,174)	(20,360)	(22,688)

## 51.4 Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may face liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, early redemptions of exchange-quoted bond repurchase products by customers, large underwriting on a firm commitment basis, significant proprietary trading position, or an overly high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be subject to penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause adverse impact on the Group's operations and reputation.

The Group and the Company manage and control their funds in a centralised manner. Through early warnings and focusing on individually large amounts of funds, the Group and the Company achieve the objective of centralised control and management of liquidity risk. By finding an appropriate balance between safety, liquidity and profitability, the Group and the Company adjust and allocate asset sizes and structural provisions, so as to establish a multi-level liquidity reserve system and achieve liquidity risk management objectives by leveraging money market and capital market transactions in a timely manner.

The Group and the Company prepare funding plans and report their implementation to the management to update the liquidity position periodically.

Surplus cash held by the operating outlets over and above balance required for working capital management are transferred to the Group. The Group invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

As at 31 December 2011 and 2012 and 2013, the Group held cash and cash equivalents of approximately RMB444 million, RMB1,033 million and RMB755 million respectively that are expected to readily generate cash flows for managing liquidity risk. In addition, the Group holds financial assets held for trading of RMB3,358 million, RMB3,340 million and RMB3,439 million at each of the respective period end, which could be readily realised to provide a further source of cash if the need arose. Further the Group holds cash held for brokerage clients of RMB4,593 million, RMB4,370 million and RMB3,963 million, client's clearing settlement funds of RMB497 million, RMB622 million and RMB920 million, which could be used to settle the Group's account payable to brokerage clients whenever needed.

The tables below present the cash flows payable by the Group and the Company for non-derivative financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

**The Group**

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>As at 31 December 2011</b>							
<b>Non-derivative financial liabilities</b>							
Financial assets sold under repurchase agreements . . . . .	-	1,907,408	-	-	-	-	1,907,408
Accounts payable to brokerage clients . . . . .	5,249,766	-	-	-	-	-	5,249,766
Other current liabilities . . . . .	68,456	-	-	-	-	-	68,456
<b>Total . . . . .</b>	<b>5,318,222</b>	<b>1,907,408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,225,630</b>

**The Group**

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>As at 31 December 2012</b>							
<b>Non-derivative financial liabilities</b>							
Financial assets sold under repurchase agreements . . . . .	-	1,762,895	-	-	-	-	1,762,895
Accounts payable to brokerage clients . . . . .	5,208,568	-	-	-	-	-	5,208,568
Other current liabilities . . . . .	52,072	43,245	-	-	-	-	95,317
<b>Total . . . . .</b>	<b>5,260,640</b>	<b>1,806,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,066,780</b>

**The Group**

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>As at 31 December 2013</b>							
<b>Non-derivative financial liabilities</b>							
Due to other financial institutions . . . . .	-	-	407,141	-	-	-	407,141
Short-term notes payable . . . . .	-	810,553	-	-	-	-	810,553
Financial assets sold under repurchase agreements . . . . .	-	1,705,890	400,750	-	-	-	2,106,640
Accounts payable to brokerage clients . . . . .	4,994,071	-	-	-	-	-	4,994,071
Financial liabilities designated at fair value through profit or loss . . . . .	-	170,649	-	367,451	170,279	54,471	762,850
Other current liabilities . . . . .	145,664	-	-	-	-	-	145,664
<b>Total . . . . .</b>	<b>5,139,735</b>	<b>2,687,092</b>	<b>807,891</b>	<b>367,451</b>	<b>170,279</b>	<b>54,471</b>	<b>9,226,919</b>

**The Company**

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>As at 31 December 2011</b>							
<b>Non-derivative financial liabilities</b>							
Financial assets sold under repurchase agreements . . . . .	-	1,907,408	-	-	-	-	1,907,408
Accounts payable to brokerage clients . . . . .	4,984,405	-	-	-	-	-	4,984,405
Other current liabilities . . . . .	67,778	-	-	-	-	-	67,778
<b>Total . . . . .</b>	<b>5,052,183</b>	<b>1,907,408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,959,591</b>

**The Company**

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>As at 31 December 2012</b>							
<b>Non-derivative financial liabilities</b>							
Financial assets sold under repurchase agreements . . . . .	-	1,762,895	-	-	-	-	1,762,895
Accounts payable to brokerage clients . . . . .	4,788,289	-	-	-	-	-	4,788,289
Other current liabilities . . . . .	51,412	43,245	-	-	-	-	94,657
<b>Total . . . . .</b>	<b>4,839,701</b>	<b>1,806,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,645,841</b>

**The Company**

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>As at 31 December 2013</b>							
<b>Non-derivative financial liabilities</b>							
Due to other financial institutions . . . . .	-	-	407,141	-	-	-	407,141
Short-term notes payable . . . . .	-	810,553	-	-	-	-	810,553
Financial assets sold under repurchase agreements . . . . .	-	1,705,890	400,750	-	-	-	2,106,640
Accounts payable to brokerage clients . . . . .	4,459,388	-	-	-	-	-	4,459,388
Other current liabilities . . . . .	142,371	-	-	-	-	-	142,371
<b>Total . . . . .</b>	<b>4,601,759</b>	<b>2,516,443</b>	<b>807,891</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,926,093</b>

**51.5 Capital management**

The Group's and the Company's objectives of capital management are:

- To safeguard the Group's and the Company's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's and the Company's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 40%;
- The ratio of net capital divided by liabilities shall be no less than 8%;
- The ratio of net assets divided by liabilities shall be no less than 20%;
- The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100%; and
- The ratio of the value of fixed income securities held divided by net capital shall not exceed 500%.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

## 52 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### 52.1 Financial instruments not measured at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, cash held for brokerage clients, clearing settlement funds, margin accounts receivable, financial assets held under resale agreements, due to other financial institutions and accounts payable to brokerage clients, their fair value approximate their carrying amounts.

In accordance with the related regulations, the Group can put or redeem its refundable deposits with stock exchanges, Futures and Commodities Exchanges and China Securities Finance Corporation Limited. The Group assesses the fair value of refundable deposits approximates the carrying amount.

### 52.2 Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level II – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level III – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's and the Company's financial assets and liabilities that are measured at fair value at 31 December 2011, 2012 and 2013.

#### The Group

	Level 1	Level 2	Level 3	Total
As at 31 December 2011				
Financial assets held for trading				
– Equity securities . . . . .	14,779	–	–	14,779
– Debt securities . . . . .	1,421,648	1,916,701	–	3,338,349
– Investment funds . . . . .	4,921	–	–	4,921
Available-for-sale financial assets				
– Equity securities . . . . .	373,166	–	–	373,166
– Collective asset management schemes . . . . .	–	54,287	–	54,287
Total assets: . . . . .	<u>1,814,514</u>	<u>1,970,988</u>	<u>–</u>	<u>3,785,502</u>

**The Company**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2011				
Financial assets held for trading				
– Equity securities . . . . .	14,779	–	–	14,779
– Debt securities . . . . .	1,421,648	1,916,701	–	3,338,349
– Investment funds . . . . .	4,921	–	–	4,921
Available-for-sale financial assets				
– Equity securities . . . . .	373,166	–	–	373,166
– Collective asset management schemes . . . . .	–	54,287	–	54,287
Total assets: . . . . .	<u>1,814,514</u>	<u>1,970,988</u>	<u>–</u>	<u>3,785,502</u>

**The Group**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2012				
Financial assets held for trading				
– Equity securities . . . . .	53,358	–	–	53,358
– Debt securities . . . . .	953,546	2,036,130	–	2,989,676
– Investment funds . . . . .	256,495	100,010	–	356,505
Available-for-sale financial assets				
– Equity securities . . . . .	82,815	–	–	82,815
– Investment funds . . . . .	11	–	–	11
– Collective asset management schemes . . . . .	–	67,277	–	67,277
– Investments in unlisted companies . . . . .	–	–	20,000	20,000
Total assets: . . . . .	<u>1,346,225</u>	<u>2,203,417</u>	<u>20,000</u>	<u>3,569,642</u>

**The Company**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2012				
Financial assets held for trading				
– Equity securities . . . . .	53,358	–	–	53,358
– Debt securities . . . . .	953,546	2,036,130	–	2,989,676
– Investment funds . . . . .	256,495	100,010	–	356,505
Available-for-sale financial assets				
– Equity securities . . . . .	82,815	–	–	82,815
– Investment funds . . . . .	11	–	–	11
– Collective asset management schemes . . . . .	–	67,277	–	67,277
Total assets: . . . . .	<u>1,346,225</u>	<u>2,203,417</u>	<u>–</u>	<u>3,549,642</u>

**The Group**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2013				
Financial assets held for trading				
– Equity securities . . . . .	205,746	–	–	205,746
– Debt securities . . . . .	1,533,220	1,373,140	–	2,906,360
– Investment funds . . . . .	74,739	252,149	–	326,888
Available-for-sale financial assets				
– Equity securities . . . . .	49,537	–	–	49,537
– Investment funds . . . . .	8,184	–	–	8,184
– Collective asset management schemes . . . . .	–	1,004	–	1,004
– Wealth management products . . . . .	–	–	75,049	75,049
– Trust schemes . . . . .	–	–	257,300	257,300
– Investments in unlisted companies . . . . .	–	–	38,378	38,378
Total assets: . . . . .	<u>1,871,426</u>	<u>1,626,293</u>	<u>370,727</u>	<u>3,868,446</u>
Financial liabilities at fair value through profit or loss . . . . .	<u>–</u>	<u>–</u>	<u>(707,437)</u>	<u>(707,437)</u>

**The Company**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2013				
Financial assets held for trading				
– Equity securities . . . . .	63,282	–	–	63,282
– Debt securities . . . . .	1,533,220	1,354,181	–	2,887,401
– Investment funds . . . . .	74,739	–	–	74,739
Available-for-sale financial assets				
– Equity securities . . . . .	49,537	–	–	49,537
– Investment funds . . . . .	8,184	–	–	8,184
– Collective asset management scheme . . . . .	–	116,766	–	116,766
Total assets: . . . . .	<u>1,728,962</u>	<u>1,470,947</u>	<u>–</u>	<u>3,199,909</u>

For the years ended 31 December 2011, 2012 and 2013, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy of the Group and the Company.

**(a) Financial instruments in Level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. 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 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities or available for sale.

**(b) Financial instruments in Level 2**

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 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 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

**(c) Valuation methods for specific investments**

As at 31 December 2011, 2012 and 2013, the Company'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 reporting date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value. For restricted shares that are acquired during an initial public offering, the market prices of the same shares listed on their respective exchanges are adopted as the fair values because restriction is a characteristic specific to the Group and the Company.
- (2) For closed-end investment funds, fair value is determined based on the closing price within bid-ask spread as at the reporting date or the most recent trading date. For open-end funds and collective asset management products, fair value is determined by trading price which is based on the net asset value as at the reporting date.
- (3) For debt securities listed through exchanges which include government bonds, corporate bonds, convertible bonds and financial bonds, fair values are determined based on the closing price within bid-ask spread of the debt securities at the date of statements of financial position.
- (4) For debt securities traded through the inter-bank bond market and the over-the-counter ("OTC") market, including government bonds, corporate bonds, commercial papers, special financial bills, central bank bills, and other fixed income debt securities, fair values are determined using valuation techniques.

**(d) Financial instruments in Level 3**

The following table presents the changes in Level 3 instruments for the years ended 31 December 2012 and 2013.

**The Group**

	<b>Available-for-sale financial assets – Investments in unlisted companies</b>
Balance at 1 January 2012 . . . . .	–
Increase . . . . .	20,000
Decrease . . . . .	–
	<hr/>
Balance at 31 December 2012 . . . . .	20,000
	<hr/> <hr/>
Total gains or losses for the year included in profit or loss for assets held at the end of year, under "Net investment losses" . . . . .	–
	<hr/> <hr/>
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year . . . . .	–
	<hr/> <hr/>

**The Group**

	<b>Available-for-sale financial assets</b>
Balance at 1 January 2013 . . . . .	20,000
Increase . . . . .	350,727
Decrease . . . . .	–
	<hr/>
Balance at 31 December 2013 . . . . .	370,727
	<hr/> <hr/>
Total gains or losses for the year included in profit or loss for assets held at the end of year, under "Net investment losses" . . . . .	49
	<hr/> <hr/>
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year . . . . .	49
	<hr/> <hr/>

## The Group

	<b>Financial liabilities designated at fair value through profit or loss</b>
Balance at 1 January 2013 . . . . .	–
Consolidation of SEs as presented in Note 3.2.5 . . . . .	837,426
Losses recognised in profit or loss . . . . .	(26,321)
Purchases . . . . .	3,390
Settlements . . . . .	(107,058)
	<hr/>
Balance at 31 December 2013 . . . . .	707,437
	<hr/> <hr/>
Total gains or losses for the year included in profit or loss for liabilities held at the end of year, under “Net investment losses” . . . . .	(26,321)
	<hr/> <hr/>
Change in unrealised gains or losses for the year included in profit or loss for liabilities held at the end of the year . . . . .	(26,321)
	<hr/> <hr/>

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 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 3.

<b>Financial assets/ financial liabilities</b>	<b>Fair value hierarchy</b>	<b>Valuation technique(s) and key input(s)</b>	<b>Significant unobservable input(s)</b>	<b>Relationship of unobservable input(s) to fair value</b>
Available-for-sale financial assets – Wealth management products	Level 3	<ul style="list-style-type: none"> <li>Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management’s best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flows</li> <li>Expected recovery date</li> <li>Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flows, the higher the fair value</li> <li>The earlier the maturity date, the higher the fair value</li> <li>The lower the discount rate, the higher the fair value</li> </ul>
Available-for-sale financial assets – Trust schemes	Level 3	<ul style="list-style-type: none"> <li>Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management’s best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flows</li> <li>Expected recovery date</li> <li>Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flows, the higher the fair value</li> <li>The earlier the maturity date, the higher the fair value</li> <li>The lower the discount rate, the higher the fair value</li> </ul>
Financial liabilities designated at fair value through profit or loss	Level 3	<ul style="list-style-type: none"> <li>Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management’s best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flows</li> <li>Expected payment date</li> <li>Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flows, the higher the fair value</li> <li>The earlier the payment date, the higher the fair value</li> <li>The lower the discount rate, the higher the fair value</li> </ul>



## 53 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

**The Group and the Company**

As at 31 December 2012

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities	Cash paid as settlement	Net amount of financial liabilities presented in the statements of financial position
Derivative financial instruments . . .	–	(9,867)	(9,867)	9,867	–

**The Group**

As at 31 December 2013

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities	Net amounts of financial assets	Cash received as settlement	Net amount of financial assets presented in the statements of financial position
Derivative financial instruments . . .	1,014	(14)	1,000	(1,000)	–

**The Company**

As at 31 December 2013

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities	Net amounts of financial assets	Cash received as settlement	Net amount of financial assets presented in the statements of financial position
Derivative financial instruments . . .	1,009	–	1,009	(1,009)	–

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing house for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement and margin accounts receivable, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

## 54 UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities of the Group mainly include collective and targeted asset management schemes, trust scheme, wealth management products and investment funds.

Except for the consolidated structured entities as detailed in Note 3.2.5, in the opinion of the directors of the Company, the variable returns of the other structured entities of the Group are not significant. The Group did not consider itself being the principal and consequently did not consolidate these other structured entities.

The total assets of unconsolidated collective and targeted asset management schemes managed by the Group amounted to RMB1,078 million, RMB7,266 million, and RMB1,276 million as at 31 December 2011, 2012 and 2013 respectively. Yanhuang No. 1 and Yanhuang No. 2 were consolidated as at 31 December 2013 (Note 23.2 and 23.3). For the unconsolidated trust schemes, wealth management products and investment funds invested by the Group, there is no available public information on the size of those structured entities which are issued and managed by third parties.

As at 31 December 2013, the interests in unconsolidated structured entities held by the Group included investments classified as available-for-sale financial assets, and financial assets held for trading, and management fee, commission fee receivables recorded as other current assets. The related carrying amount and the maximum exposure were as follows:

	<u>31 December 2013</u>
Available-for-sale financial assets . . . . .	341,537
Financial assets held for trading . . . . .	326,888
Other current assets . . . . .	1,362
<b>Total</b> . . . . .	<u>669,787</u>

For the year ended 31 December 2013, the income derived from these unconsolidated structured entities held by the Group was as follows:

	<u>Year ended 31 December 2013</u>
Net investment gains . . . . .	7,116
Fee and commission income . . . . .	7,015
<b>Total</b> . . . . .	<u>14,131</u>

As at 31 December 2013, the Group did not provide, nor intend to provide, any financial support to these unconsolidated structured entities.

## 55 SUBSEQUENT EVENTS

On 9 January 2014, the Company issued 90-day short-term notes of RMB900 million paying interest at 6.65% per annum, which was fully repaid on 10 April 2014.

On 13 January 2014, the Company repaid the short-term notes of RMB800 million (Note 44).

On 4 April 2014, the Company issued 90-day short-term notes of RMB800 million paying interest at 5% per annum.

On 25 April 2014, the Company issued RMB1.5 billion corporate bonds, paying annual interest at 6.2% with five years term. As approved by the Shareholders' General Meeting, and as stipulated in the issuance documents, the Company will appropriate 5% from its annual net profit to discretionary surplus reserve; and 11% from its annual net profit to general risk reserve during the term of the corporate bonds. The Company has also committed to further increase the appropriation to discretionary surplus reserve and general risk reserve to 10% and 12% respectively when the Company cannot or expects it cannot honour any interest or principal payments of the corporate bonds.

**III SUBSEQUENT FINANCIAL STATEMENTS**

The Group has not prepared audited financial statements for any period between 31 December 2013 and the date of this report. Save as disclosed above, the Group has not declared or paid dividends for any period after 31 December 2013.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company which has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules for the purpose of illustrating the effect of Global Offering as if it had taken place on 31 December 2013 and based on the consolidated net tangible assets attributable to shareholders of the Company as at 31 December 2013 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 December 2013 or at any future date.

	Consolidated net tangible assets attributable to shareholders of the Company as of 31 December 2013 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)</sup>	Unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per share	
	(in Thousands of RMB)			(RMB) <sup>(3)</sup>	(HK\$) <sup>(5)</sup>
Based on the Offer Price of HK\$2.51 per share . . . . .	4,037,268	1,111,626	5,148,894	1.96	2.46
Based on the Offer Price of HK\$3.14 per share . . . . .	4,037,268	1,402,377	5,439,645	2.07	2.60

*Note:*

- (1) The consolidated net tangible assets attributable to shareholders of the Company as of 31 December 2013 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the consolidated net assets attributable to shareholders of the Company as of 31 December 2013 of RMB4,091,342,000 with an adjustment for the intangible assets and goodwill as of 31 December 2013 of RMB54,074,000.
- (2) The estimated net proceeds from the Global Offering are based on the individual offer price of HK\$2.51 and HK\$3.14 per share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and based on the assumption that no over-allotment option will be granted.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustments as described in note (2) above and on the basis that 598,100,000 shares are in issue, assuming the Global Offering had been completed on 31 December 2013 and no over-allotment option will be granted.
- (4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2013.
- (5) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of RMB0.7958 to HK\$1.00, the PBOC rate prevailing on 30 May 2014. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

**B. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION REPORT**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION  
INCLUDED IN A PROSPECTUS**

To The Directors of Central China Securities Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Central China Securities Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the Directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2013, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 of the Company's prospectus dated 11 June 2014, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the notes on Page II-1.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2013 as if the proposed initial public offering had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended 31 December 2013, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are solely responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" (the "AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma 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:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 11 June 2014

## TAXATION OF SECURITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds 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 investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on the *Agreement Between the U.S. and the PRC for the Avoidance of Double Taxation* (the “Treaty”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of this prospectus, an “Eligible U.S. Holder” is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC to which H Shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) who is not otherwise ineligible for benefits under the Treaty with respect to income and gain derived in connection with the H Shares.

This section of this prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

### PRC

#### Taxation of Dividends

##### *Individual Investors*

According to the *Individual Income Tax Law of China* (中華人民共和國個人所得稅法) (the “Individual Income Tax Law”), as enacted by the Standing Committee of the fifth National People’s Congress on 10 September 1980 and as last amended on June 30, 2011 and effective on September 1, 2011 and the Provisions for Implementation of Individual Income Tax Law of the PRC (the “Implementation Rules”), as last amended by the State Council on July 19, 2011 and effective on September 1, 2011, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20.0%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a personal income tax of 20.0% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.



Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) promulgated by the State Administration of Taxation, when non-foreign invested enterprises have had their public offering in Hong Kong, its foreign resident individual shareholders are entitled to enjoy relevant preferential tax treatments in accordance with the taxation treatment arrangements entered into between their own residency countries and the PRC. Generally, the PRC individual income tax at the rate of 10.0% is applicable to dividends paid by non-foreign invested enterprises which have had their public offering in Hong Kong to the individual holders of H Shares who are non-PRC nationals and no need to apply for relevant approvals with the taxation bureaus in the PRC. In case the 10.0% tax rate is not applicable, the relevant enterprise shall: (i) for the individual holders of H Shares receiving dividends who are citizens from countries that have entered into income tax treaties with the PRC with the tax rates lower than 10.0%, non-foreign invested enterprises which have had their public offering in Hong Kong will apply on behalf of the such holders to seek entitlement of the lower preferential tax treatments, and upon approval by the tax authorities, the amounts which are over the withheld tax will be refunded; (ii) for the individual holders of H shares receiving dividends who are citizens from countries that entered into income tax treaties with the PRC with the tax rates higher than 10.0% but lower than 20.0%, non-foreign invested enterprises which have had their public offering in Hong Kong are required to withhold the tax at the agreed rates under the treaties, and no application procedures will be necessary; (iii) for the individual holders of H Shares receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, non-foreign invested enterprises which have had their public offering in Hong Kong are required to withhold the tax at the rate of 20.0%.

According to *the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion* (Guo Shui Han [2006] No. 884) (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) with respect to taxes on income signed on August 21, 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10.0% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25.0% equity interest in a PRC company, such tax shall not exceed 5.0% of the gross amount of dividends payable by the PRC company.

### ***Enterprises***

According to the new EIT Law and the *Provision for Implementation of Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) which both became effective on January 1, 2008, the non-resident enterprises shall be subject to 10.0% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to the *Notice Regarding Questions on Withholding Enterprise Income tax When PRC Resident Enterprises Distribute Dividends to Non-resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] NQ. 897)* (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稅有關問題的通知) issued by the State Administration of Taxation, which became effective on November 6, 2008, PRC resident enterprises should withhold enterprise income tax at a rate of 10.0% when they distribute dividends to non-resident enterprise shareholders of H Shares from the year of 2008. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

### ***Tax Treaties***

Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of our Company who do not reside in the PRC. The PRC currently has double-taxation treaties with many nations in the world, which include but not limited to: Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore and the United States.

### **Taxation of Capital Gains**

In accordance with the Implementation Rules, individuals are subject to individual income tax at the rate of 20.0% on gains realized on the sale of equity interests in PRC resident enterprises. The Implementation Rules also provide that the MOF shall draft measures for collection of individual income tax from income on the transfer of shares, and such measures are subject to the approval of the State Council. However, as of the Latest Practicable Date, no such measures have been drafted and enacted. Under 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稅的通知) issued by MOF and State Administration of Taxation on March 30, 1998, from January 1, 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. After the latest amendment to the Individual Income Tax Law on June 3, 2011 and its Implementation Rules on July 19, 2011, the State Administration of Taxation has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, on December 31, 2009, MOF, State Administration of Taxation and CSRC jointly issued the *Circular on Related Issues on 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) which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on November 10, 2010). As of the Latest Practicable Date, no legislation has expressly provided individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, and in practice such tax has not been collected by the PRC tax authorities.

## Additional Chinese Tax Considerations

### *PRC Stamp Duty*

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of the *Provisional Regulations of China Concerning Stamp Duty* (中華人民共和國印花稅暫行條例), which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

### *Estate Tax*

Under China's current legal environment, no liability for estate tax under PRC law will arise from a non-PRC national's holding of H Shares.

## HONG KONG

### Taxation on Dividends

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

### Capital gains and profit tax

In accordance with the *Inland Revenue Ordinance* in Hong Kong, no tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trading, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15.0%. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Share is effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

### Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred to or from each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required). Where a sale or purchase of the H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of

transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the stamp duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

### **Estate Duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

## **MAJOR TAXATION OF THE COMPANY IN THE PRC**

### **Income Tax**

In accordance with the new EIT Law, the enterprise income tax rate for enterprises and other institutions which get revenues in the PRC is 25.0%.

### **Business Tax**

Pursuant to the *Provisional Regulations of the PRC Conceding Business Tax* (中華人民共和國營業稅暫行條例) as last amended on November 5, 2008 and effective on January 1, 2009 and the relevant implementing rules, a business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate of 5.0% on the financial insurance enterprises.

## **FOREIGN EXCHANGE CONTROL**

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible at this time. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated new *Regulation of Foreign Exchange* (中華人民共和國外匯管理條例) (the “Foreign Exchange Regulations”), which was last amended and took effect on August 5, 2008. The Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to approval of SAFE while capital account items still are.

On June 20, 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) (the “Settlement Regulations”), which took effect on July 1, 1996, pursuant to which, the PRC has abolished the 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 October 25, 1998, the PBOC and SAFE promulgated the *Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (關於停辦外匯調劑業務的通知) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005, the PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar. The PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the Renminbi exchange rate on the following working day.

Since January 4, 2006, the PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, the PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the Renminbi was transformed to a mechanism under which the PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the Renminbi against the U.S. dollar, based on the enquiry system, at 9:15 am on each business day.

The foreign exchange income under the current items may be reserved or sold to financial institutions operating foreign exchange sale of settlement business. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating foreign exchange sale of settlement business, approval of the competent foreign exchange administrative authorities shall be obtained, unless it is otherwise provided 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, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange 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, on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of H Shares are fixed in Renminbi but must be paid in Hong Kong dollars. We prepare our consolidated financial statements in Renminbi.

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, still requires the approval of SAFE and other relevant authorities.

On January 28, 2013, SAFE issued the Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》, “SAFE Circular 5”), which came into effect on the day of issuance and replaced the above-mentioned SAFE notices regarding foreign exchange in connection with overseas listing. According to SAFE Circular 5, a domestic issuer shall, within 15 working days after its overseas IPO, register with SAFE’s local branch at the place of its incorporation. The SAFE branch shall issue a certificate of overseas listing, based on which the domestic issuer can open a special account with a local bank to deposit proceeds from its overseas IPO. The proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of this prospectus and other disclosure documents. The conversion of proceeds remitted to domestic accounts into Renminbi shall be approved by the local SAFE branch.



*This Appendix sets forth summaries of certain aspects of PRC law and regulations which are relevant to the Group's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III – Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, 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 the PRC issuers.*

## PRC LEGAL SYSTEM

The PRC legal system is composed of the constitution, laws, administrative regulations, local regulations, rules and regulations of departments, rules and regulations of local governments, autonomy regulations and separate rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purpose of judicial reference and guidance. *The PRC Constitution* (《中華人民共和國憲法》), enacted by the National Peoples' Congress of the PRC (the "NPC"), is basis of the PRC legal system and has supreme legal authority.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required by to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the principles of such laws.

The State Council shall formulate administrative regulations according to the constitution and laws.

People's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and requirements of the local administrations, provided that such local regulations shall not be in conflict with the constitution, laws and administrative regulations. People's congresses of large cities and their respective standing committees may enact local regulations based on the specific circumstances and requirements of the local administrations, which shall come into effect upon approval from the respective standing committees of the people's congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the constitution, laws and administrative regulations.

People's congresses of autonomous regions may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, which shall come into effect upon approval from the Standing Committee of the NPC.

Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, provided that no adaptations shall be made to provisions in the constitutions and national region autonomy law and specific provisions on national autonomous areas contained in other relevant laws and administrative regulations.

The ministries, commissions, People's Bank of China, Audit Office and institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations shall be formulated for the purpose of the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and large cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the PRC Constitution, the authority of the interpretation of laws shall be vested to the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, interpretation on the application of laws and decrees in court trials and the procuratorial work of the procuratorates shall be given by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Interpretation of the laws and decrees unrelated to trials and procuratorial work shall be given by the State Council and the competent ministries and commissions. In the case that clarification or additional provisions shall be made for the local regulations, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which enacted such regulations shall give the interpretation or formulate the additional provisions. Interpretation on the application of local regulations shall be given by the competent departments under the people's government of the respective provinces, autonomous regions and municipalities.

## PRC JUDICIAL SYSTEM

Under the *PRC Constitution* (《中華人民共和國憲法》) and the *Law of the PRC of Organization of the People's Courts* (《中華人民共和國人民法院組織法》) which was enacted on July 1, 1979 and last amended and took effect on October 31, 2006, the judicial system in PRC is made up 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 comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may be organized into civil, criminal, and economical divisions. The intermediate people's courts may be organized into divisions similar to those of the basic people's courts, and may be further organized into other special divisions, such as the intellectual property division. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the trial activities of people's courts.



The people's courts adopt a "second instance as final" appellate system in the trial of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people's courts to the people's courts at the next higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people's procuratorate within the stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people's courts, the higher people's courts and Supreme People's Court and the judgments and rulings of the first instance of the Supreme People's Court shall be the final judgments and rulings. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The *Civil Procedure Law of the PRC* 《(中華人民共和國民事訴訟法)》 (the "PRC Civil Procedure Law"), which was adopted on April 9, 1991 and last amended on August 31, 2012 and became effective on January 1, 2013, sets forth the criteria for instituting a civil case, 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 PRC 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 an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract, the object of the action or other locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual 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 impose 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 order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two year. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In the case of an application or request for recognition and enforcement of a legally effective judgment or order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of

reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognize the validity of the judgment or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognize and enforce it.

### **THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS**

The Company Law (《公司法》) which was promulgated on December 29, 1993 by the Standing Committee of the NPC, last amended on December 28, 2013 and came into effect on March 1, 2014 regulates the organisation and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors. The latest amendment to the Company Law in 2013 has cancelled the restriction on the minimum registered capital and replaced the registered paid-up share capital system by the registered subscribed capital system.

The Special Regulations (《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》) were promulgated by the Standing Committee Meeting of the State Council, and took effect on August 4, 1994. The Special Regulations are formulated according to the Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions (《到境外上市公司章程必備條款》) were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in the appendix headed “Appendix V – Summary of Articles of Association” to this prospectus).

Copies of the Chinese text of the PRC Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the appendix headed “Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus.

#### **General**

A “joint stock limited liability company” (hereinafter referred to as “company”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company's assets and liabilities and the establishment of internal management organs.

**Incorporation**

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35.0% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. The company shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting give notice to all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50.0% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee 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 shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business license has been issued.

**Share Capital**

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15.0% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25.0% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

### **Increase in Capital**

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

### **Reduction of Share Capital**

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the company registration authority for registration of the reduction in registered capital.

### **Repurchase of Shares**

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by canceling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or
- (iii) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.

The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5.0% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year.

### **Transfer of Shares**

Shares may be transferred in accordance with the relevant laws and regulations.

### **Shareholders**

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or article of association, the shareholders may lodge an action in the people's court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

**Shareholders' General Meetings**

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee or the supervisors;
- (v) to consider and approve the company's proposed annual financial budget and financial accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters;
- (x) to decide on the appointment, resignation or dismissal of the accounting firm;
- (xi) to amend the articles of association of the company; and
- (xii) other powers specified in the articles of association of the company.

A shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;



- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10.0% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the supervisory committee proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' 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 not performing his duties, the meeting shall be presided over 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 directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10.0% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

Notice of the Shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the *Special Regulations* and the *Mandatory Provisions*, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets forth the scope of exercising the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50.0% or



more of the voting rights in the company have been received 20 days before the proposed date, or if that 50.0% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

### **Directors**

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of our Company. Under the Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division, dissolution or change of the form of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's president, and based on the president's recommendation, to appoint or dismiss vice presidents and financial officers of the company and to decide on their remuneration;

- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

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 company's articles of association 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 proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy 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;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debt due and outstanding; or

- (vi) other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix V – Summary of Articles of Association” to this prospectus).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the Mandatory Provisions, is the chairman. The Special Regulations provide that a company’s directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed “Appendix V – Summary of Articles of Association” to this prospectus) contain further elaborations of such duties.

### **Supervisors**

A company shall have a supervisory committee composed of not less than three members. 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 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 supervisor results in the number of supervisors being less than the quorum. The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company’s staff representatives; and the percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the Company Law are as follows:

- (i) to examine the company’s financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders’ resolution;
- (iii) to require any director or senior management whose act is detrimental to the company’s interests to rectify such act;

- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. All expenses incurred by the supervisory committee to exercise their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least every six months. Interim meetings of the supervisory committee can be convened by the supervisors. Resolutions of the supervisory committee require the approval of more than half of all supervisors. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and supervisors attending the meeting shall sign to endorse such minutes.

### **Managers and other Senior Officers**

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;

- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other senior administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management officers of a company includes the financial officer, secretary of the board of directors and other executives as specified in the article of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed "Appendix V – Summary of Articles of Association" to this prospectus.

### **Duties of Directors, Supervisors and Senior Officers**

A director, supervisor and senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- (i) misappropriation of company funds;
- (ii) deposit of company funds into accounts under their own name or the name of other individuals;
- (iii) loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;

- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- (v) 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 benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- (vi) accepting for their own benefit commissions from other parties dealing with the company;
- (vii) unauthorized divulgence of confidential information of the company; or
- (viii) other acts in violation of their duty of loyalty to the company.

A director, supervisor and senior officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor and senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Where the attendance of a director, supervisor, manager or other senior officer is requested by the shareholders' general meeting, such director, supervisor, manager or other senior officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior officers shall furnish with all truthfulness facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

A company shall not directly, or through its subsidiary, provide loans to any director, supervisor or senior management and shall regularly disclose to the shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

### **Finance and Accounting**

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10.0% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has reached 50.0% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25.0% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

#### **Appointment and Retirement of Auditors**

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

### **Distribution of Profits**

The Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

### **Amendments to Articles of Association**

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

### **Dissolution and Liquidation**

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10.0% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.



Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of relevant company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

### **Loss of Share Certificates**

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix V – Summary of Articles of Association.")

### **Merger and Demerger**

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within ten days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within thirty days. The creditors may, within thirty days as of the receipt of the notice or within forty five days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.

As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within thirty days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

**SECURITIES LAW AND REGULATIONS**

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorizations.

The PRC Securities Law took effect on July 1, 1999 and was revised on October 27, 2005 and June 29, 2013. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue 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. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

**Regulation on Anti-money Laundering**

The Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》) effective on January 1, 2007 provides for the duties of the relevant financial regulatory authorities in anti-money laundering, which includes monitoring the capital of anti-money laundering, formulating rules and regulations on anti-money laundering of the financial institutions, supervising and reviewing the fulfillment of anti-money laundering obligations by financial institutions and investigating suspicious transactions within the scope of responsibilities. Heads of financial institutions shall be responsible for the effective implementation of anti-money laundering internal control system. Financial institutions shall establish a client identification system and a system for keeping clients' identity information and transaction record, and report large-sum transactions and doubtful transactions according to applicable requirements.

According to the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》) which was enacted by the PBOC and came into effect on January 1, 2007, financial institutions and their branches shall establish comprehensive anti-money laundering internal control systems, an anti-money laundering department or designated internal department responsible for anti-money laundering pursuant to applicable laws. Anti-money laundering internal procedures and control measures shall be formulated. Specific training shall be offered to the staff in order to strengthen the anti-money laundering works.

According to the Measures on Administration of Identification of Clients and Preservation of Client Identities 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 was jointly enacted by The PBOC, China Banking Regulatory Commission, the CSRC and China Insurance Regulatory Commission and came into effect on August 1, 2007, financial institutions shall establish client identification systems, and shall record the identities of all clients and the information about each of the transactions, and shall preserve the retail trading documents and books.

According to the Administrative Measures for the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions (《金融機構大額交易和可疑交易報告管理辦法》) which was enacted by the PBOC and came into effect on March 1, 2007, the headquarter of the financial institution or the department appointed by the headquarter, shall report to China Anti-money Laundering Monitoring and Analysis Centre electronically after identifying large-sum transactions and doubtful transactions.

The CSRC also formulated the Implementing Rules of Anti-money Laundering for Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) which effective from October 1, 2010 and further formulates the anti-money laundering rules for securities and futures industry, and the anti-money laundering liabilities for the institutions carrying on funds sales business in their funds sales activities, and the securities and futures operating institutions should establish anti-money laundering internal control system.

### **Overseas Listing**

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from the CSRC.

**ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS**

The *Arbitration Law of the PRC* (《中華人民共和國的仲裁法》) (the “Arbitration Law”) was passed by the Standing Committee of the National People’s Congress on August 31, 1994 and the latest version was amended on August 27, 2009 with immediate effect. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court will refuse to handle the case.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors or officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim 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 or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and disputes in relation to our 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 (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim 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 the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for Enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

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》) (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the National People’s Congress 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 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 National People’s Congress simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards 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.

In June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

#### **ESTABLISHMENT OF OVERSEAS OPERATIONS RULES AND REGULATIONS**

According to the Provisions for Overseas Investment Management (《境外投資管理辦法》) as promulgated by MOFCOM and the Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) issued by SAFE, upon obtaining approval from the MOFCOM to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments.

According to the Tentative Administrative Provisions on the Approval of Overseas Investment Projects (《境外投資項目核準暫行管理辦法》), promulgated by the NDRC, investment projects involving the use of a large amount of foreign exchange would require the verification and approval by the NDRC or the State Council. If there is any change with respect to the investor or equity holding of a project that has been verified and approved, an application for amendment shall be made to the NDRC.



**SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC  
COMPANY LAWS****Companies Ordinance**

The Hong Kong law applicable to a company with share capital incorporated in Hong Kong is based on the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law. Our Company, which is a joint stock limited liability company established in the PRC, is governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law applicable to a joint stock limited liability company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

Set out below is a summary of the material differences between the Companies Ordinance applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited liability company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison:

**(i) Corporate subsisting**

Under Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the Company Law, a joint stock limited liability company may be incorporated by either the promotion method or the subscription method.

**(ii) Share capital**

Under the new Companies Ordinance, the concept of the nominal value (also known as par value) of shares of a Hong Kong company has been abolished, and the companies have increased flexibility to alter its share capital by (i) increasing its share capital; (ii) capitalizing its profits; (iii) allotting and issuing bonus shares with or without increasing its share capital; (iv) converting its shares into larger or smaller number of shares; and (v) cancelling its shares. The concept of authorised capital no longer applies to a Hong Kong company formed on or after March 3, 2014 as well. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares.

The Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited liability company incorporated by promotion method is the total amount of its share capital denominated by all promoters who have registered at the company registration authority; the registered capital of a joint stock limited liability company incorporated by subscription method is the received total amount of its share capital that have been registered at the company registration authority. Any increase in registered capital must be approved by the shareholders at a general meeting and by the relevant governmental and regulatory authorities in the PRC (if required).

Under the PRC Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, the capital contributions may be in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out according to the law to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

*(iii) Restrictions on shareholding and transfer of shares*

Under PRC law, the domestic shares in the share capital of a joint stock limited liability company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares issued by a joint stock limited liability company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, except as otherwise permitted under the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法), may only be subscribed and traded by investors from Hong Kong Special Administrative Region, the Macau Special Administrative Region, Taiwan or any country and territory outside the PRC.

Under the Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a company held by its directors, supervisors and management personnel and transferred each year during their term of office shall not exceed 25.0% of the total shares they held in the company, and the shares they held in the 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 the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lock up on our Company's issue of shares and the 12-month lock up on the Controlling Shareholder's disposal of shares, as illustrated by the undertakings given by our Company to the Hong Kong Stock Exchange as described in the section headed "Underwriting" in this prospectus.

*(iv) Financial assistance for acquisition of shares*

The Company Law does not contain any provision prohibiting or restricting a joint stock limited liability company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Companies Ordinance.



*(v) Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variation 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 the appendix headed “Appendix V – Summary of Articles of Association” to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of shares in the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has 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 of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) where our Company issues, upon the approval by special resolution of the Shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20.0% of each of our existing issued Domestic Shares or overseas-listed foreign-invested Shares; (ii) where our Company completes, with 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, our plan (made at the time of our establishment) to issue Domestic Shares and overseas-listed foreign-invested Shares; and (iii) upon the approval by the securities regulatory authorities of the State Council, the unlisted Shares held by our Shareholders become listed or traded on an overseas stock exchange.

*(vi) Directors*

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of interests in material contracts by a director, restrictions on directors’ authority in making major dispositions, restrictions on companies providing certain benefits such as guarantees in respect of directors’ liability and prohibition against compensation for loss of office without shareholders’ approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

*(vii) Supervisory committee*

Under the Company Law, the board of directors and managers of a joint stock limited liability company is subject to the supervision and inspection of a supervisory committee. But there is no mandatory requirement for the establishment of a supervisory committee 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 under comparable circumstances.

*(viii) Derivative action by shareholders*

Hong Kong law permits shareholders, with the permission of a court, to start a derivative action on behalf of and under the name of a company against directors in breach of their duties. The PRC Company Law gives shareholders of a joint stock limited liability company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1.0% of the shares in the company for more than 180 days consecutively may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may request in writing the board of directors to initiate proceedings in the people's court. Upon receipt of such request in writing from the shareholders, if the supervisory committee or the board of directors refuse 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 irreparable 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 its own name.

The Mandatory Provisions further provide that directors, supervisors and officers in breach of their duties to the company shall compensate the company. In addition, every director and supervisor of a joint stock limited liability company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company as agent for each shareholder to comply with the articles of association. This allows shareholders to act against directors and supervisors in default.

*(ix) Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to make any order as the court thinks fit. 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 in Hong Kong. The Company Law does not contain similar safeguards. The Mandatory Provisions, however, contains provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

*(x) Notice of shareholders' meetings*

Under the Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum notice period of a general meeting other than an annual general meeting is 14 days; and the notice period for an annual general meeting is 21 days.

*(xi) Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provided. For one member companies, one member will be a quorum. The Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50.0% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50.0% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

*(xii) Voting*

Under the law of Hong Kong, an ordinary resolution of the members (or of a class of members) of a company means a resolution that is passed by a simple majority and a special resolution of the members (or of a class of members) means a resolution that is passed by a majority of at least 75%. In the event that the resolution is passed at a general meeting on a show of hands, it is out of the number of members who vote in person and the number of persons who vote on the resolution as duly appointed proxies. In the event that the resolution is passed at a general meeting on a poll, it is out of the total voting rights of all the members who (being entitled to do so) vote in person or by proxy on the resolution. Under the Company Law, the passing of resolutions requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increases or reductions of share capital, and merger, demerger or dissolution of a joint stock limited liability company or changes to the form of the company, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

*(xiii) Financial disclosure*

A joint stock limited liability company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before an annual general meeting. In addition, a public company under the Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its financial statements sheet, auditors' report and directors' report which are to be tabled before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC GAAP, have its accounts prepared and audited in accordance with IFRS 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 PRC GAAP.

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.

*(xiv) Information on directors and shareholders*

The Company Law gives shareholders the right to inspect the articles of association, records of the shareholders' 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 similar to that available to shareholders of Hong Kong companies under Hong Kong law.

*(xv) Receiving agent*

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment by the company of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited liability company in respect of such foreign shares.

*(xvi) 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 being wound up voluntarily 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 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

*(xvii) Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

*(xviii) Mandatory transfers*

Under the 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 such requirements under Hong Kong law.

*(xix) Remedies of a company*

Under the Company Law, if a director, supervisor or management personnel 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 management personnel should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association sets out remedies to our Company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

*(xx) Dividends*

Pursuant to the relevant PRC laws and regulations, the company shall 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 dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

*(xxi) Fiduciary duties*

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and management personnel owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

*(xxii) Closure of register of shareholders*

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

**Hong Kong Listing Rules**

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

*(i) Compliance Advisor*

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from the date of submitting the listing application to the date of sending of annual report to the shareholders for the first full year's financial results, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

*(ii) Accountant's report*

Generally speaking, the preparation of accountant's report shall be required to conform to Hong Kong Financial Reporting Standards or International Financial Reporting Standards or CASBE.



*(iii) Process agent*

Our Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

*(iv) Public shareholdings*

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25.0% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15.0% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million.

The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15.0% and 25.0% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10,000 million.

*(v) Independent non-executive directors and supervisors*

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

*(vi) Restrictions on purchase and subscription of its own securities*

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Codes on Takeovers and Mergers and Share Purchases and any similar PRC law of which they are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10.0% of the total amount of existing issued H Shares.

***(vii) Mandatory Provisions***

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed “Appendix V – Summary of Articles of Association” to this prospectus.

***(viii) Redeemable Shares***

Our Company must not issue any redeemable Shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

***(ix) Right of First Refusal***

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Hong Kong Listing Rules, but only to the extent that, the existing Shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20.0% of the existing Domestic Shares and H Shares as of the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

***(x) Supervisors***

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisors or proposed Supervisors of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year’s notice or to pay compensation or make other payments equivalent to more than one year’s emoluments.



The remuneration and nomination committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

*(xi) Amendment to the Articles of Association*

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Hong Kong Listing Rules relating to such Articles of Association.

*(xii) Documents for inspection*

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- for Shareholders only, copies of minutes of meetings of Shareholders.

*(xiii) Receiving agents*

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

*(xiv) Statements in listing documents and share certificates*

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with our Company, each Shareholder, Director, Supervisor and officer of our Company, and our Company acting for itself and for each Director, Supervisor and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorizes our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

*(xv) Compliance with the Company Law, the Special Regulations and the Articles of Association*

Our Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

*(xvi) Contract between our Company and its Directors, Officers and Supervisors*

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- that the Director or officer is required to observe and comply with the Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement with our Company that remedies shall be provided in accordance with the Articles of Association and that neither their contract nor their office are capable of assignment;

- an undertaking by the Director or officer, acting as agent for each Shareholder, to our Company to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitration body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitration body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

*(xvii) Subsequent listing*

Our Company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

*(xviii) English translation*

All notices or other documents required under Chapter 13 of the Hong Kong Listing Rules to be sent by our Company to the Hong Kong Stock Exchange are required to be in the English language, or accompanied by a certified English translation.

*(xix) General*

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the statements in Rule 19A.01 of the Hong Kong Listing Rules, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirement and make special conditions in respect of the Listing.

**Other Legal and Regulatory Provisions**

Upon Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

**Securities arbitration rules**

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases in the following circumstances. 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 the 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 communications. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC.

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 AND OBJECTIVE OF BUSINESS**

The business objective of the Company is to maximize the long-term interests of shareholders through honest, prudent, innovative and efficient operations.

The business scope of the Company is: securities brokerage, securities investment consulting, financial consulting relating to securities trade and securities investment, securities underwriting and sponsorship, proprietary trading of securities, securities asset management, proxy sale of securities investment fund, intermediary introduction business for futures company, margin financing and securities lending business and proxy sale of financial products.

According to laws and regulations and relevant provisions of CSRC, the Company may set up a wholly-funded subsidiary to conduct private equity business.

## **SHARES**

### **Shares and Registered Capital**

The stock of the Company shall take the form of shares. All shares issued by the Company shall have par values, with each share having a par value of RMB1.

The Company shall have common shares at all times; with the approval of the department authorised by the State Council, the Company may have other forms of shares when needed.

The Company shall issue shares in an open, fair and just manner, and each share of the same category shall have the same right. All shares of the same category issued at the same time shall be issued under the same conditions and at the same price.

Upon approval by CSRC or other relevant regulatory authorities, the Company may offer its shares to both domestic and foreign investors, and the Board of the Company may make arrangement for separate offering of shares. If the Company separately issues overseas listed foreign shares and domestic shares within the total number specified in the issue scheme, the said shares shall be issued respectively at one time; if it is impossible for the shares to be issued at one time for special reasons, the shares may be issued by several times upon approval by CSRC.

### **Share Transfer**

Save as otherwise specified by laws, administrative regulations, department rules and provisions of the securities regulatory authority at the location where the Company's shares are listed, shares of the Company may be transferred freely and without any liens. Transfer of overseas listed foreign shares listed in Hong Kong shall be registered with the Hong Kong-based share registry designated by the Company.

The Company shall not accept its own shares as pledge object.

The shares of the Company held by the promoters shall not be transferred within one year after incorporation of the Company. Shares already issued by the Company before public offering shall not be transferred within one year after the shares of the Company are listed on the stock exchange. The directors, supervisors and senior executives shall report to the Company about their shareholdings and changes thereof and shall not transfer more than 25.0% of their shares per annum during their terms of office; the shares they hold in the Company shall not be transferred within one year after the shares of the Company are listed. The aforesaid persons shall not transfer their shares in the Company within half a year after they terminate service with the Company.

If the directors, supervisors, senior executives, and shareholders holding more than 5.0% shares of the Company sell shares within six months after buying the same or buy shares within six months after selling the same, the earnings arising therefrom shall belong to the Company and the Board of the Company will recover the said earnings.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to purchasers or potential purchasers of the Company's shares. The aforesaid purchasers include persons directly or indirectly undertaking obligations because of the purchase of the Company's shares.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to the aforesaid obligors for the purpose of reducing or discharging their obligations unless in the following circumstances:

- The Company provides the relevant financial assistance in the interest of the Company in good faith, and the main purpose of the said financial assistance is not to purchase the Company's shares, or the said financial assistance is a part of a general plan of the Company;
- The Company distributes its properties as dividends in accordance with the law;
- The Company distributes shares as dividends;
- The Company decreases its registered capital, repurchases its shares and adjusts the equity structure in accordance with the Articles of Association;
- The Company provides a loan for its normal business operations within its business scope (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or, despite a decrease, such financial assistance is deducted from the distributable profit of the Company); and
- The Company provides a loan for employee stock ownership plan (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or, despite a decrease, such financial assistance is deducted from the distributable profit of the Company).

**SHARES BUYBACK**

The Company may, in the following circumstances, buy back its shares pursuant to laws, administrative regulations, department rules and Articles of Association:

- Decreasing the registered capital of the Company;
- Merging with other companies holding shares of the Company;
- Awarding shares to employees of the Company;
- Shareholders objecting to resolutions of the general meeting concerning merger or division of the Company, requiring the Company to buy their shares; and
- Other circumstances specified by laws and regulations and approved by relevant regulatory authorities.

The Company shall not trade its shares unless in the aforesaid circumstances.

The Company buy back its shares in any of the following ways upon approval by relevant competent authority of the State;

- Offering to buy back shares from all shareholders according to the proportion of shares they hold;
- Buying back through open transaction in the stock exchange;
- Buying back through agreement outside the stock exchange; and
- In other forms approved by laws, regulations, rules, normative documents and relevant competent authorities.

In buying back shares through agreement outside the stock exchange, the Company shall obtain prior approval at a general meeting in accordance with the Articles of Association.

After buying back its shares according to the laws, the Company shall cancel the said shares before the deadline specified by laws and administrative regulations, and register the change of the registered capital with the original company registration authority.

**INCREASE AND DECREASE OF SHARES**

According to the Articles of Association, the Company may increase or decrease the registered capital upon approval by special resolutions at a general meeting and securities regulatory authority of the State.



The Company may increase capital in following ways:

- Offer of new shares to non-given investors;
- Non-public offering;
- Placement of new shares among existing shareholders;
- Offer of new shares to existing shareholders;
- Conversion of common reserve fund into share capital; and
- By other means stipulated by laws, administrative regulations or approved by the regulatory authorities.

Issue of new shares by the Company shall be subject to approval as specified in the Articles of Association and follow the procedures specified by the relevant State laws and administrative regulations.

The Company shall prepare a balance sheet and a list of property inventory when decreasing its registered capital. The Company shall notify all creditors within 10 days after adoption of the resolution to decrease the registered capital and shall make announcements in newspapers within 30 days. The creditors shall be entitled to require the Company to repay debts or provide corresponding guarantees for debt repayment within 30 days after the receipt of the notice, or within 45 days after the announcement for creditors if the creditors haven't received the notice. The Company's registered capital shall not, upon the decrease of capital, be less than the statutory minimum limit.

The Company shall decrease its registered capital pursuant to *Company Law*, other relevant regulations, and Articles of Association.

### **SHARES AND SHAREHOLDERS' REGISTER**

The Company's shares are all registered shares. Matters specified in the shares shall include other matters required by the stock exchange with which the Company is listed, as well as those specified in *Company Law*.

The Company shall establish a shareholders' register recording the following matters:

- Names (titles), addresses (domiciles), occupations or nature of each shareholder;
- Type and number of shares held by the shareholders;
- Monies paid or payable for the shares held by the shareholders;
- Serial numbers of the shares held by each shareholder;

- Date on which each shareholder is registered as shareholder; and
- Date on which each shareholder ceases to be a shareholder.

The shareholders' register is a sufficient evidence of the shareholders' shareholdings in the Company unless there is evidence to the contrary.

The Company may keep overseas the register of holders of overseas listed foreign shares and entrust it to the care of an overseas agency in accordance with the understanding and agreement reached between the securities regulatory authority under the State Council and the overseas securities regulatory authority. The original of the register of holders of overseas listed foreign shares listed in Hong Kong shall be kept in Hong Kong. The Company shall keep at its domicile a copy of the register of holders of overseas listed foreign shares; the entrusted overseas agency shall always ensure that the original and copies of the register of holders of overseas listed foreign shares are consistent. Where the original and copies of the register of holders of overseas listed foreign shares are inconsistent, the original shall prevail.

Change of the shareholders' register arising from share transfer shall not be registered within 30 days before convening of a general meeting or within five days prior to the benchmark date on which the Company decides to distribute dividends.

If any person objects to the shareholders' register and asks to have his name (title) recorded in or deleted from the shareholders' register, the said person may apply to the court with jurisdiction to correct the shareholders' register.

If any shareholder in the shareholders' register or any person requesting to have his name (title) recorded in the shareholders' register has lost his shares (i.e. "the Original Shares"), the said shareholder or person may apply to the Company to reissue new shares for the said shares (i.e. "the Relevant Shares").

## **SHAREHOLDERS AND THE GENERAL MEETING**

### **Shareholders**

Shareholders of the Company are persons lawfully holding shares of the Company, with names (titles) recorded in shareholders' register.

The shareholders enjoy rights and fulfil obligations as per the shares they hold; the same shares represent the same rights and the same obligations. Where two or more persons are registered as joint holders of any shares, they shall be deemed as the common owners of the said shares subject to the following restrictions:

- The Company shall not register more than four persons as joint holders of any shares;
- The joint holders of any shares shall assume joint liability for all payables for relevant shares;

- If any of the joint shareholders deceases, only the surviving joint shareholders shall be deemed by the Company as owners of the relevant shares, but the Board may, for the purpose of modifying the shareholders' register, require the provision of a death certificate as it deems appropriate; and
- Among the joint holders of any shares, only the shareholder that is listed first in the shareholders' register shall be entitled to take relevant shares, receive notices of the Company, and attend the general meetings or exercise the full voting right of the relevant shares. Any notice received by such shareholder shall be deemed as having been served to all the joint holders of the relevant shares.

The common shareholders of the Company shall be entitled to the following rights:

- To receive dividends and other distributions in proportion to the shares they hold;
- To attend general meetings either in person or by proxy and exercise the voting right;
- To supervise, present suggestions on or make inquiries about the business operations of the Company;
- To transfer their shares in accordance with laws, administrative regulations and Articles of Association;
- To gain relevant information in accordance with the Articles of Association, including:
  - (1) Receiving the Articles of Association after payment of production cost; and
  - (2) Being entitled to consult and copy all the parts of shareholders' register; personal data of directors, supervisors, president and other senior executives of the Company; share capital of the Company; report of the total par value, quantity, the highest and lowest price of each class of shares bought back by the Company from the last fiscal year, and the total amount paid by the Company for this purpose; counterfoils of corporate bonds; minutes of general meetings; resolutions of the Board meetings; resolutions of meetings of the Supervisory Committee; and financial statements after payment of reasonable fee.
- To participate in the distribution of the remaining properties of the Company as per their shares in the event of the termination or liquidation of the Company;
- To require the Company to buy their shares in the event of objection to resolutions of the general meeting concerning merger or division of the Company; and
- To enjoy other rights stipulated by laws, administrative regulations, department rules and Articles of Association.

If any resolution of the general meeting or the Board runs counter to the laws and administrative regulations, the shareholders shall be entitled to request the people's court to invalidate the said resolution. If the convening procedure and voting method of the general meeting or the Board meeting run counter to the laws, administrative regulations or Articles of Association, or if the content of any resolution runs counter to the Articles of Association, the shareholders shall be entitled to request the people's court to cancel the said procedure, method or resolution within 60 days after adoption of the resolution. If any director or senior executive violates laws, administrative regulations or Articles of Association in fulfilling their duties, thereby incurring any loss of the Company, the shareholder(s) severally or jointly holding 1.0% or more shares of the Company for more than 180 days continuously shall be entitled to request the Supervisory Committee in writing to institute legal proceedings to the people's court; if the Supervisory Committee violates laws, administrative regulations or Articles of Association in fulfilling its duties, thereby incurring any loss of the Company, the shareholders shall be entitled to request the Board in writing to institute legal proceedings to the people's court. If the Supervisory Committee or the Board refuses to institute legal proceedings after receipt of the aforesaid written request or does not institute legal proceedings within 30 days after receipt of the said request, or if the circumstance is urgent or any delay of legal proceedings may incur irrecoverable damage to the interests of the Company, the shareholders as specified in the preceding paragraph shall be entitled to directly institute legal proceedings to the people's court in their own names in the interests of the Company. If any other person infringes upon the legitimate rights and interests of the Company, thereby incurring any loss of the Company, the shareholder(s) severally or jointly holding 1.0% or more shares of the Company for more than 180 days continuously may institute legal proceedings to the people's court according to the aforesaid provision. If any director or senior executive violates laws, administrative regulations or Articles of Association, thereby incurring any loss of the shareholders, the shareholders may institute legal proceedings to the people's court. If any holders of foreign shares are involved in the aforesaid circumstance, the provision of the Articles of Association concerning settlement of disputes shall apply.

The common shareholders of the Company shall have the following obligations:

- To abide by laws, administrative regulations and Articles of Association;
- To pay subscription funds as per the shares subscribed and the method of subscription;
- Not to exit shares unless in the circumstances stipulated by laws and regulations;
- Not to abuse shareholder's right to damage the interests of the Company or other shareholders;
- Not to abuse the independent status of legal person or shareholder's limited liability to damage the interests of the creditors of the Company;
- To promptly make payment for subscription in cash, go through relevant formalities for subscription in kind as specified, and undertake corresponding liability for the failure to pay (in full) the subscription funds in time as specified; and
- To fulfil other obligations as stipulated by laws, administrative regulations and Articles of Association.

Shareholders holding 5.0% or more voting shares and effective controllers of the Company shall notify the Company within five working days in any of the following circumstances:

- Equity of the Company they hold or control is under property preservation measures or enforcement measures;
- Equity of the Company they hold is pledged;
- They decide to transfer equity of the Company they hold or control;
- Shareholders holding 5.0% or more equity change into effective controllers;
- Names are changed;
- They are involved in merger or division;
- They are subject to regulatory measures including suspension of operation for recertification, designated custody, takeover or cancellation, or enter into dissolution, bankruptcy or liquidation procedure;
- They receive administrative penalty or are investigated for criminal responsibility due to serious violations of laws and regulations; and
- They are involved in other circumstances that may lead to transfer of equity of the Company they hold or control or affect operation of the Company.

If the shareholders of the Company have their equity percentage reaching or exceeding 5.0% of the registered capital of the Company through subscription for or acceptance of the Company's equity or holding of the shareholders' equity in the Company or other ways, they shall notify the Company and complete approval formalities with CSRC before they formally hold corresponding percentage of shares. Without the approval by CSRC, any institutions or persons shall not directly or indirectly hold 5.0% or more shares of the Company; otherwise, they shall make corrections within a specified period, and shall not exercise the voting right of relevant shares before such correction.

The controlling shareholders and effective controllers of the Company shall not use the connected relations to damage the interests of the Company; otherwise, they shall make compensation for the loss incurred to the Company. Save for the obligations under laws, administrative regulations or the listing rules of the stock exchange with which the Company's shares are listed, the controlling shareholders of the Company, in exercising their rights as shareholders, shall not make any decision detrimental to all or some shareholders.

The Company and shareholders (or related parties of shareholders) thereof shall not act as follows:

- Holding equity of shareholders unless otherwise specified by laws, administrative regulations or CSRC;

- Transmitting undue benefits to shareholders by way of purchasing securities held by shareholders;
- Shareholders illegally occupying assets of the Company; and
- Other acts prohibited by laws, administrative regulations or CSRC.

**GENERAL PROVISIONS FOR GENERAL MEETINGS**

The general meeting shall be the authority of power of the Company and shall exercise the following functions and powers according to law:

- To decide the business operation guideline and investment plan for the Company;
- To elect and change directors and supervisors who are not employees' representatives, and resolve on the remunerations of directors and supervisors;
- To examine and approve reports of the Board;
- To examine and approve reports of the Supervisory Committee;
- To examine and approve the annual financial budgets and final accounting plans of the Company;
- To examine and approve the Company's profit distribution plan and loss recovery plan;
- To resolve on increase or decrease of the registered capital of the Company;
- To resolve on issuance of bonds of the Company;
- To resolve on the merger, division, dissolution, liquidation or transformation of the Company;
- To amend the Articles of Association;
- To appoint, dismiss or no longer re-appoint the accounting firms;
- To examine and approve the external guarantees of the Company that require the approval by the general meetings;
- To consider the Company's purchase or disposal of major assets within one year with the transaction amount exceeding 30.0% of the latest audited total assets of the Company;
- To examine and approve matters relating to the changes in the use of proceeds from share offerings;

- To consider equity incentive scheme;
- To examine and approve shareholding schemes of directors, supervisors, senior executives or employees of the Company;
- To consider proposals of shareholders representing more than 3.0% (inclusive) of the voting shares of the Company; and
- To consider other matters which, in accordance with laws, administrative regulations, department rules or Articles of Association, shall be approved at a general meeting.

The following external guarantees to be given by the Company shall be examined and approved by the general meeting:

- Provision of a single guarantee whose amount exceeds 10.0% of the latest audited net assets of the Company;
- Provision of any external guarantee by the Company or its holdings subsidiaries, the total amount of which exceeds 50.0% of the latest audited net assets of the Company;
- Provision of guarantee to anyone whose liability-asset ratio exceeds 70.0%;
- Provision of guarantee whose cumulative amount in 12 consecutive months exceeds 30.0% of the latest audited total assets of the Company;
- Provision of guarantee whose cumulative amount in 12 consecutive months exceeds 50.0% of the latest audited net assets of the Company and RMB50 million; and
- Provision of other guarantees stipulated by laws and regulations, department rules, normative documents or Articles of Association.

General meetings are classified into annual general meetings and extraordinary general meetings. The annual general meeting of shareholders shall be held once every year within six months after the end of the previous fiscal year. In any of the following circumstances, the Company shall convene an extraordinary general meeting within two months from the date upon which the circumstance occurs:

- The number of directors falls short of the quorum stipulated in *Company Law* or is less than two thirds of the number specified in the Articles of Association;
- The unrecovered losses of the Company amount to one third of the total amount of its share capital;
- Shareholder(s) severally or jointly holding more than 10.0% of the Company's voting shares request(s) in writing the convening of an extraordinary general meeting;



- The Board deems necessary;
- The Supervisory Committee proposes to convene such meeting; and
- Other circumstances stipulated by laws, administrative regulations, department rules or Articles of Association.

### **CONVENING OF GENERAL MEETINGS**

Independent non-executive directors shall be entitled to propose to the Board to convene an extraordinary general meeting. Regarding the proposal of the independent non-executive directors to convene an extraordinary general meeting, the Board shall, pursuant to relevant laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. If the Board does not agree to hold the extraordinary general meeting, it shall give the reasons.

The Supervisory Committee shall be entitled to propose to the Board to convene an extraordinary general meeting, and shall put forward its proposal to the Board in writing. The Board shall, pursuant to relevant laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it will serve a notice of such meeting within five days after the resolution is made by the Board. In the event of any change to the original proposal set forth in the notice, the consent of the Supervisory Committee shall be obtained. If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, it shall be deemed as unable to perform or failing to perform the duty of convening the extraordinary general meeting, and the Supervisory Committee may convene and preside over the meeting by itself.

Shareholder(s) severally or jointly holding more than 10.0% shares of the Company shall be entitled to request the Board to convene an extraordinary general meeting or class general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to relevant laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding more than 10.0% shares of the Company shall be entitled to propose to the Supervisory Committee to convene an extraordinary general meeting, and shall put forward such request to the Supervisory Committee in writing. If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after receipt

of the said request. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. In the case of failure to issue the notice for the general meeting within the term stipulated, the Supervisory Committee shall be deemed as failing to convene and preside over the general meeting. As a result of its failure to do so for more than 90 consecutive days, the shareholder(s) severally or jointly holding more than 10.0% shares of the Company may convene and preside over such meeting by itself/themselves.

Where the Supervisory Committee or shareholders decide to convene a general meeting by itself/themselves, it/they shall notify the Board in writing and file with the securities regulatory authority at the place where the Company is registered. The shareholding of shareholders who convene the meeting shall not be less than 10.0% when a resolution is made at the meeting. The convening shareholders shall, when the notice of general meeting is issued or a resolution is made at the general meeting, submit relevant evidential documents to the securities regulatory authority at the place where the Company is registered.

Where the Company convenes a general meeting, a written notice shall be given 45 days prior to the date of the meeting to notify all the shareholders in the shareholders' register of the issues to be considered at the meeting, and the date and venue of the meeting. Any shareholder who intends to attend the meeting shall deliver to the Company a written reply stating his or her intention to attend at least 20 days prior to the meeting. Where the number of voting shares represented by shareholders intending to attend the meeting amounts to more than one half of the Company's voting shares, the Company may convene the general meeting; if not, the Company shall, within five days, notify shareholders again of the issues to be considered, date and venue of the meeting in the form of public announcements. The Company may then convene the general meeting after such announcements.

The interval between equity registration date and the date of the general meeting shall not be more than seven working days. The equity registration date shall not be changed once confirmed. After the notice of general meeting is issued, the same meeting shall not be postponed or cancelled and the proposals set out in the notice shall not be cancelled without proper reasons. In the case of any postponement or cancellation, the convener shall make an announcement and give the reasons therefor at least two working days prior to the date on which the meeting is originally scheduled.

All the shareholders or their proxies in the shareholders' register on the equity registration date shall be entitled to attend the general meeting and exercise their voting rights according to relevant laws, regulations and Articles of Association.

Any shareholder entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (who need not be a shareholder or shareholders) as his proxies to attend and vote on his behalf. The said proxy may exercise the following rights as granted by the said shareholder:

- To exercise the said shareholder's right to speak at the general meeting;
- To severally or jointly request to vote by ballot; and

- To exercise the right to vote by a show of hand or ballot; where there are more than one proxy, the said proxies shall only vote by ballot.

The power of attorney shall be in writing under the hand of the principal or his proxy duly authorised in writing or, if the principal is a legal person, it shall be under seal or under the hand of a director or a proxy duly authorised.

The chairman shall preside over and act as chairman of the general meeting. If the chairman cannot or does not fulfill the duty thereof, a director shall be elected by more than half of directors to preside over and act as chairman of the meeting. Where the general meeting is convened by the Supervisory Committee itself, the chairman of the Supervisory Committee shall preside over and act as chairman of the meeting. If the chairman of the Supervisory Committee cannot or does not fulfill the duty thereof, more than half of the supervisors may jointly elect a supervisor to preside over and act as chairman of the meeting. Where the general meeting is convened by the shareholders themselves, the convener shall elect a representative to preside over and act as chairman of the meeting. If for any reason the shareholders cannot elect a person to act as chairman, the shareholder (including agent thereof) holding the most shares among the attending shareholders shall act as chairman of the meeting. Where a general meeting is held and the chairman of the meeting violates the rules of procedure which makes it difficult for the general meeting to continue, a person may be elected at the general meeting to act as chairman, subject to the approval of more than half of the attending shareholders having the voting rights.

The Company shall formulate rules of procedure for general meetings to specify the convening and voting procedure of general meetings.

All directors, supervisors and secretary of the Board shall attend general meetings of the Company, and the president and other senior executives shall be present at the meetings.

The convener shall ensure that the general meeting is held continuously until final resolutions have been reached. In the event that the general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or for other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly.

The Board and the Supervisory Committee shall report their work in the preceding year at the annual general meeting.

The Board, Supervisory Committee and senior executives shall answer or explain inquiries and suggestions made by shareholders except that the business secrets of the Company are involved and cannot be disclosed at the general meeting.

Minutes of a general meeting shall be kept by the secretary of the Board. The directors, the supervisors, the secretary of the Board, the convener or representative thereof, and the chairman of the meeting shall sign on the minutes of the meeting. The minutes of meeting shall be kept together with the attendance register of the attending shareholders, the power of attorney of the proxies, and other valid documentation. The minutes of general meetings shall be kept permanently.

**PROPOSALS OF GENERAL MEETINGS**

Where the Company convenes a general meeting, the Board, Supervisory Committee, and shareholder(s) severally or jointly holding more than 3.0% shares of the Company may make proposals to the Company.

Shareholder(s) severally or jointly holding more than 3.0% shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting to other shareholders within two days after receipt of a proposal, and place the proposal on the agenda for the said meeting and submit the proposal for approval at a general meeting if the said proposal falls within the functions and powers of general meetings. Save as specified in the preceding paragraph, the convener shall not change the proposal set out in the notice of general meeting or add any new proposal after the said notice is served.

**RESOLUTIONS OF GENERAL MEETINGS**

Resolutions of a general meeting shall be divided into ordinary resolutions and special resolutions. Ordinary resolutions shall be passed by votes representing more than half of the voting rights held by shareholders (including proxies thereof) attending the general meeting. Special resolutions shall be passed by votes representing more than two thirds of voting rights held by shareholders (including proxies thereof) attending the general meeting.

The following issues shall be approved by special resolutions at a general meeting:

- Amendment to the Articles of Association;
- Increase or reduction in share capital of the Company and the issue of shares of any class, warrants and other similar securities;
- Merger, division, dissolution, liquidation or transformation of the Company;
- Issue of bonds of the Company;
- The Company's purchase or disposal of major assets within one year with the transaction amount exceeding 30.0% of the latest audited total assets of the Company;
- Equity incentive scheme; and
- Any other issue specified in the laws, administrative regulations or Articles of Association and confirmed by an ordinary resolution at a general meeting that it may have material impact on the Company and accordingly shall be approved by special resolutions.

Shareholders (including proxies thereof) shall exercise their voting rights as per the voting shares they represent. Each share carries the right to one vote. The Company has no voting right for the shares it holds, and such part of shares shall be excluded from the total number of voting shares represented by the shareholders attending the general meeting.

When a connected transaction is considered at a general meeting, connected shareholders shall not vote, and the voting shares held by them shall not be counted in the total number of shares with voting rights.

The general meeting shall resolve on all the proposals separately; in the event of several proposals for the same issue, such proposals shall be voted on and resolved in the order of time at which they are submitted. Unless the general meeting is adjourned or no resolution can be made for special reasons such as force majeure, voting of such proposals shall neither be shelved nor refused at the general meeting.

The chairman shall be responsible for determining whether a resolution has been passed pursuant to voting results. His decision, which shall be final and conclusive, shall be announced at the meeting. The voting result shall be recorded in the minutes of the meeting.

If ballots are counted at a general meeting, the counting result shall be recorded in the meeting minutes.

### **SPECIAL VOTING PROCEDURES FOR CLASS SHAREHOLDERS**

Holders of different classes of shares are class shareholders. Apart from holders of other classes of shares, holders of domestic shares and overseas listed foreign shares are deemed to be shareholders of different classes.

Any proposed change or annulment by the Company to the rights of class shareholders shall not come into effect unless approved by special resolutions at a general meeting and a separate general meeting convened by the class shareholders so affected in accordance with relevant provisions. The following circumstances shall be deemed as change or annulment of the rights of a certain class shareholder:

- To increase or decrease the number of shares of such class, or to increase or decrease 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;
- To change all or part of the shares of such class into shares of another class or to change all or part of the shares of another class into shares of that class or to grant relevant conversion rights;
- To cancel or reduce rights to accrued dividends or cumulative dividends attached to shares of the said class;
- To reduce or cancel rights attached to the shares of the said class to preferentially receive dividends or to receive distributions of assets in a liquidation of the Company;
- To add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of the Company attached to the shares of the said class;

- To cancel or reduce rights to receive payments made by the Company in a particular currency attached to the shares of the said class;
- To create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of the said class;
- To restrict the transfer or ownership of the shares of the said class or to impose additional restrictions;
- To issue rights to subscribe for, or to convert into, shares of the said class or another class;
- To increase the rights and privileges of the shares of another class;
- To restructure the Company in such a way as to cause shareholders of different classes to bear liabilities disproportionately during the restructuring; and
- To amend or cancel provisions in Shareholders and The General Meeting of the Articles of Association.

Where issues specified in (2) to (8), (11) to (12) above are involved, the affected class shareholders, whether or not they are entitled to vote at general meetings originally, shall have the right to vote at class meetings. However, interested shareholder(s) shall not be entitled to vote at such class meetings. Resolutions of a class general meeting shall be approved by votes representing more than two thirds of the voting rights of shareholders of that class present at the meeting who are entitled to vote at the meeting.

Special voting procedures for class shareholders shall not apply in the following circumstances:

- With the approval by a special resolution at a general meeting, the Company issues and plans to issue, on one or more occasions, a total number of shares not exceeding 20.0% of each of its existing issued and outstanding domestic shares and overseas listed foreign shares in every 12 months;
- The Company's plan to issue domestic shares and overseas listed foreign shares at the time of its establishment is completed within 15 months from the date of approval of the securities regulatory authority under the State Council; and
- With approval of the securities regulatory authority under the State Council, the holders of domestic shares of the Company can transfer their shares to overseas investors and list the said shares on overseas stock exchanges.

**DIRECTORS AND THE BOARD****Directors**

Directors of the Company are natural persons and need not hold shares of the Company. Directors of the Company shall be elected or replaced at general meetings. A director shall serve a term of three years, and may seek reelection upon expiry of the said term. Directors of the Company shall before assuming office have their post-holding qualifications approved by securities regulatory authority. The term of a director shall be calculated from the date upon which the relevant resolution is passed at the general meeting to the expiry of the current Board. If the term of office of a director expires but reelection is not made responsively, the said director shall continue fulfilling the duties as director pursuant to laws, administrative regulations, department rules and Articles of Association until a new director is elected. A director may serve concurrently as president or other senior executive, but the inside directors (i.e., directors serving concurrently as senior executives or holding other positions) shall not be more than half of the directors of the Company.

Directors shall observe laws, administrative regulations and Articles of Association, and fulfill the following obligations of honesty:

- Not to abuse their official powers to accept bribes or other unlawful income, and not to expropriate the Company's property;
- Not to embezzle monies of the Company or customers;
- Not to open in their own names or in others' names any bank account for the purpose of depositing any of the Company's assets or monies;
- Not to lend monies of the Company to other persons or provide guarantee for other persons with the property of the Company counter to the Articles of Association or without the consent of the general meeting or the Board;
- Not to conclude any contract or conduct any transaction with the Company counter to the Articles of Association or without the consent of the general meeting;
- Without the consent of the general meeting, not to take advantage of their positions to seek for themselves or others any business opportunities that are due to the Company, or conduct for themselves or others any businesses similar to those of the Company;
- Not to take as their own any commission for any transaction with the Company;
- Not to disclose any secret of the Company;
- Not to use their connected relations to damage the interests of the Company;
- Not to lend the monies of any customer to others, or use the assets of any customer to provide guarantee for any debt of the Company, any shareholder of the Company, or any other institution or individual;



- Not to seek gains for themselves or others by taking advantage of inside information; and
- To fulfill other obligations of honesty stipulated by laws, administrative regulations, department rules and Articles of Association.

Directors shall fulfill the following obligations of diligence:

- To exercise the rights conferred by the Company with due discretion, care and diligence to ensure the business operations of the Company comply with State laws, administrative regulations and relevant State policies, not beyond the business scope specified in the business license of the Company;
- To treat all shareholders impartially;
- To carefully read the relevant business and financial reports of the Company and keep informed of the operation and management conditions of the Company;
- To exercise personally the discretion vested in them and not to allow themselves to be controlled by others and, save as permitted by laws or administrative regulations or with the informed consent of shareholders given at a general meeting, not to transfer the exercise of their discretion to others;
- To honestly provide the Supervisory Committee with relevant information, not to prevent the Supervisory Committee or supervisors from exercising their functions and powers, and to accept the lawful supervision and rational suggestions of the Supervisory Committee on their performance of duties; and
- To fulfill other obligations of diligence stipulated by laws, administrative regulations, department rules and Articles of Association.

Save as specified in the Articles of Association or properly authorized by the Board, no director shall act on behalf of the Company or the Board in his personal name. If a director acts in his own name but a third party may reasonably think the said director is acting on behalf of the Company or the Board, the said director shall make a prior statement of his standpoint and capacity.

If any director fails to attend Board meetings in person or by proxy for two consecutive times, the said director shall be deemed incapable of performing his duties, and the Board shall suggest that the general meeting dismiss the said director.

A director may resign before his term of office expires. If the number of directors of the Board falls below the quorum as a result of any resignation, such resignation shall not become effective until the vacancy resulting from such resignation is filled up by a succeeding director. Save as provided in the preceding paragraph, a director's resignation shall be effective when his resignation is served to the Board.

The duties of a director towards the Company and the shareholders do not necessarily cease when he tenders his resignation or upon the expiry of his term of office. Such director shall continue to observe his duties at any time before the resignation or expiry of term of office, as the case may be, becomes effective and for a reasonable period thereafter. The duty of confidentiality in respect of trade secrets of the Company survives the termination of his term of office until such trade secrets become publicly known. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances under which the relationship between the director and the Company was terminated. Any director who has left his office without authorization before his term of office expires and thereby caused the Company to incur a loss shall be liable for compensation to the Company.

### **Independent Non-executive Directors**

The Company shall establish an independent non-executive director system. The number of independent non-executive directors shall be at least three, and not less than one third of the total number of directors.

Independent non-executive directors shall be elected or replaced at general meetings and shall each serve a term of three years. The term of office of an independent non-executive director is renewable upon reelection when it expires, but the renewed term shall not exceed six years.

An independent non-executive director shall meet the following basic conditions:

- Having the qualifications as director of the Company in accordance with the laws, administrative regulations and other relevant provisions;
- Being independent as required by securities regulatory authority;
- Having the basic knowledge about operations of companies, and proficient in relevant laws, administrative regulations and rules;
- Having more than five years' experience in legal and economic work or other work required for fulfilling duties as independent non-executive director;
- Other conditions required by relevant laws, regulations and regulatory provisions at the location where the Company's shares are listed.

The following persons shall not act as independent non-executive director of the Company:

- Persons employed by the Company or its related parties and their immediate family members and major social connections (immediate family members shall include spouse, parents and issues and major social connections shall include siblings, parents-in-law, sons/daughters-in-law, spouses of siblings, siblings of spouse);

- Persons and their immediate family members and major social connections employed by the shareholder entities which hold or control 5.0% or more of the Company's equity or which are top five shareholder entities of the Company;
- Natural person shareholders who hold or control 5.0% or more of the Company's equity and their immediate family members and major social connections;
- Persons providing financial, legal or consulting services to the Company and its related parties and their immediate family members and major social connections;
- Persons who belonged to categories (1) to (4) within the preceding year;
- Persons serving as directors in other securities companies;
- Other persons specified in the Articles of Association;
- Other persons unfit to serve as independent non-executive directors upon confirmation by CSRC or regulatory authority at the location where the Company's shares are listed.

Where any independent non-executive director is involved in any of the aforesaid circumstances, the securities company shall immediately dismiss the said director, and report to the industry competent authority of the Company and the securities regulatory authority at the location where the Company's shares are listed.

If any independent non-executive director has not attended Board meetings in person for three times consecutively, the Board shall propose to the general meeting to replace the said independent director.

### **The Board**

The Company shall have a Board, which shall be accountable to the general meeting. The Board shall consist of nine directors, including one chairman.

The Board shall be accountable to the general meeting and exercise the following functions and powers:

- To convene general meetings and report to general meetings;
- To report at the annual general meetings and disclose in the annual reports the duty performance of directors, including the number of attendances of directors at Board meetings and voting;
- To execute resolutions of general meetings;
- To resolve on the Company's business plans and investment plans;

- To prepare the annual financial budgets and final accounting plans of the Company;
- To prepare the profit distribution plan and loss makeup plan of the Company;
- To prepare plans for the increase or decrease of the registered capital of the Company and for the issuance of corporate bonds;
- To formulate plans for material acquisitions, purchase of shares of the Company, merger, division, dissolution or transformation of the Company;
- To resolve on the establishment of internal management organizations and branches of the Company;
- To appoint or dismiss the Company's president, chief compliance officer, secretary of the Board and chief audit officer as nominated by the chairman and determine their remunerations; to decide to appoint or dismiss the Company's vice president, chief financial officer and other senior executives as nominated by the president and determine their remunerations;
- To set up the basic management system of the Company;
- To formulate the proposals for any amendment to the Articles of Association;
- To formulate proposals for appointment and dismissal of an accounting firm;
- To decide on external investment, acquisition and disposal of assets, asset mortgage, external guarantee, consigned financial management, connected transactions, etc. of the Company within the authority granted by the general meeting;
- To listen to the work report of the president of the Company and examine on the president's work;
- To listen to the report of the chief compliance officer on the compliance status of the Company;
- To determine directors' remunerations and distribution plan thereof, and submit special reports to the general meeting on the performance evaluation and remunerations of directors;
- To exercise other functions and powers as stipulated by laws, administrative regulations, department rules or Articles of Association.

The Board may resolve on the issues specified in the preceding paragraph by approval of more than half of the directors save for the issues specified in (7), (8) and (12), in which approval of two thirds of the directors is required.

The Board shall make explanations to the general meeting in relation to the nonstandard audit opinions in the audit report produced by the accounting firm on the financial reports of the Company.

The Board shall formulate rules of procedure for the Board meetings and implement them after reporting them to the general meeting for approval in order to ensure the work efficiency and scientific decision making of the Board.

The chairman shall be a director of the Company and shall be elected or dismissed by a majority of all the directors.

The chairman shall serve a term of three years, and is eligible for reelection. The chairman shall exercise the following functions and powers:

- To preside over general meetings and to convene and preside over the Board meetings;
- To supervise and examine the implementation of the resolutions of the Board;
- To sign the shares, bonds and other securities of the Company;
- To sign important documents of the Board and other documents which should be signed by the legal representative;
- To exercise the functions and powers as legal representative;
- In any emergent force majeure event, to exercise the special right of disposal in respect of the business of the Company in compliance with laws, regulations and in the interests of the Company, and report to the Board and the general meeting of the Company afterwards; and
- To exercise other functions and powers conferred by the Board.

Board meetings shall be held regularly at least four times every year, and shall be convened by the chairman, with the notice of meeting sent in writing to all the directors and supervisors 14 days in advance.

In any of the following circumstances, the chairman shall convene and preside over a Board meeting within 10 days after receipt of the proposal.

- Proposed by shareholders representing more than 10.0% of the voting rights;
- Jointly proposed by more than one third of the directors;
- Proposed by the Supervisory Committee;
- Proposed by the president;

- Jointly proposed by more than half of the independent non-executive directors.

The notice of provisional Board meetings shall be served to all the directors and supervisors five days in advance.

A Board meeting shall be attended by more than one half of the directors. Every director shall have one vote. Save as otherwise specified in laws, regulations or Articles of Association, resolutions made by the Board shall be passed by more than half of all directors. If the pros and cons are the same, the chairman shall be entitled to an additional vote.

If any director has connection with the enterprise involved in the resolution made at a Board meeting, the said director shall not vote on the said resolution for himself or on behalf of other director. The Board meeting may be held when more than half of the non-connected directors attend the meetings. The resolution made at 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 consideration.

Directors shall attend Board meetings in person. If any director cannot attend the meeting for any reason, he may authorize in writing another director to act on his behalf. Voting on Board meetings may be conducted by open ballot.

Minutes shall be recorded for Board meetings and shall be signed by the attending directors and the recorder. Any attending director shall be entitled to have an explanatory note made in the minutes regarding his speech at the meeting. The minutes of Board meetings shall be kept by the secretary of the Board as the Company's permanent record.

The directors shall sign and be responsible for the resolutions passed at Board meetings. If any resolution runs counter to the laws, administrative regulations or Articles of Association, the Supervisory Committee shall require the Board to make corrections, and managers shall refuse to execute the said resolution. If the said resolution causes any losses to the Company, directors who vote for the said resolution shall be liable for compensation to the Company. If any director raises an objection to the resolution and the said objection is recorded in the minutes, the said director may be exempt from any liability.

### **Special Committees under the Board**

The Board of the Company sets up special committees with regard to development strategy, risk management, audit and remuneration. The special committees shall all consist of directors. Members of special committees shall have relevant professional knowledge and working experience. The number of independent non-executive directors in Audit Committee shall not be less than one half of all its members, and there shall be at least one non-executive director who has worked as an accountant for more than five years. The person in charge of the Remuneration and Nomination Committee or Audit Committee shall be an independent non-executive director.

**Secretary of the Board**

The Board shall have a secretary, who is a senior executive of the Company. The secretary of the Board shall be responsible to the Board and shall be nominated by the chairman and appointed or dismissed by the Board. The secretary of the Board shall be a natural person with necessary professional knowledge and experience. The circumstances set out in the Articles of Association disqualifying a person as director of the Company shall also apply to the secretary of the Board.

The main duties of the secretary of the Board are:

- To address and coordinate information disclosure of the Company, organize and formulate information disclosure management system of the Company, and urge the Company and relevant information disclosure obligors to observe relevant provisions concerning information disclosure;
- To be responsible for the investor relations management and shareholder information management of the Company, and coordinating information exchange between the Company and securities regulatory authority, shareholders and effective controllers, sponsors, securities service providers and the media;
- To organize and arrange for Board meetings and general meetings, attend general meetings, Board meetings, Supervisory Committee meetings and meetings related to senior executives, and take and sign Board meeting minutes;
- To be responsible for the confidentiality of information disclosure of the Company and promptly report to the stock exchange when significant undisclosed information was disclosed;
- To pay attention to media reports, take the initiative to verify the facts, and urge the Board to promptly reply to relevant enquiries from the stock exchange;
- To organize trainings concerning securities laws and regulations and relevant provisions for directors, supervisors and senior executives, and assist the said people in understanding their rights and obligations in information disclosure;
- To urge directors, supervisors and senior executives to observe the laws and regulations, and earnestly fulfil their commitments; upon becoming aware that the Company has passed or may pass resolutions which may breach the relevant provisions, to immediately remind the Board and report such facts to the securities regulatory authority;
- To ensure that the Company has complete organisation documents and records;
- To ensure that the Company legally prepares and submits reports and documents as required by the competent authorities;



- To ensure that the shareholders' register of the Company is established appropriately and that the persons who have the right of access to the relevant records and documents of the Company obtain the same in due time;
- To fulfil other duties required by the *Company Law*, *Securities Law* and CSRC.

### **President and Other Senior Executives**

The Company shall have one president, who shall be nominated by the chairman, and appointed or dismissed by the Board upon affirmative votes of more than half of directors. A president shall serve a term of three years and may serve consecutive terms upon reappointment.

A director may serve concurrently as president, vice president or other senior executive, but the directors serving concurrently as such shall not be more than half of the directors of the Company. Members of staff of the controlling shareholders and effective controllers of the Company who serve positions other than directors shall not serve as senior executives of the Company.

The president shall be accountable to the Board and exercise the following functions and powers:

- To manage the business operations of the Company, organize execution of the Board's resolutions, and report to the Board;
- To organise to execute the Company's annual business plans and investment plans;
- To prepare the plan for the internal management setup of the Company;
- To draft the basic management system of the Company;
- To formulate the Company's specific rules;
- To propose to the Board to appoint or dismiss the vice president, chief financial officer and other senior executives of the Company;
- To decide to appoint or dismiss executives other than those appointed or dismissed by the Board; and
- To exercise other functions and powers conferred in the Articles of Association and by the Board.

The president shall formulate relevant working rules, which shall come into effect upon approval by the Board.

The Company shall have one chief compliance officer, who shall be the compliance officer as well as senior executive of the Company, and appointed or dismissed by the Board. The appointment and dismissal of the chief compliance officer shall comply with *Company Law*, *Securities Law* and relevant regulations of CSRC.

The main duties of the chief compliance officer are:

- Reviewing whether the major businesses and decisions, internal system and regulations of the Company comply with the laws, administrative regulations and departmental rules;
- Reviewing before the decisions on major businesses are made; reporting to the Board and securities regulatory authority if the business departments insist in spite of the objection of the chief compliance officer;
- Responsively finding and urging to solve compliance problems in the daily operations of the Company, preparing compliance report and reporting to the Board of the Company and securities regulatory authority;
- Organising compliance training on senior executives and employees of the Company so as to build compliance culture;
- Providing compliance consulting for other departments and staff of the Company;
- Communicating and coordinating with CSRC and industry self-discipline organization.

If any senior executive violates the laws, administrative regulations, department rules or Articles of Association in fulfilling his duties, thereby incurring any loss of the Company, the said senior executive shall be liable for compensation.

## **SUPERVISORS AND SUPERVISORY COMMITTEE**

### **Supervisor**

The position of supervisor shall be assumed by shareholder representatives and employee representatives. Supervisors shall have expertise or experience in law, finance, etc. Directors, president and other senior executives and their direct relatives and major social connections shall not serve as supervisors concurrently. Supervisors shall not hold any positions in other securities companies.

The term of office of a supervisor shall be three years. Shareholder supervisors shall be elected or replaced at general meetings, employee supervisors shall be elected or removed democratically by employees of the Company at employee representatives' meetings, employees' meetings or in other forms. Employee representatives serving as supervisors shall not be less than one third of the supervisors. Supervisors may be reelected for successive terms.

If the term of office of a supervisor expires but reelection is not made responsively or if any supervisor resigns during his term of office so that the membership of the Supervisory Committee falls short of the quorum, the said supervisor shall continue fulfilling the duties as supervisor pursuant to relevant laws, administrative regulations and Articles of Association until a new supervisor is elected.

If any supervisor fails to attend meetings of the Supervisory Committee for two consecutive times, he shall be deemed as incapable of performing his duties, and shall be removed by the general meeting or the employee representatives' meeting.

Supervisors have the right to know the operations of the Company via Supervisory Committee and shall undertake the confidentiality obligation accordingly. The Company shall guarantee the supervisors' right to know and shall provide necessary assistance to supervisors for their normal performance of duties. No one shall interfere with or obstruct supervisors' work. The reasonable expenses required for performance of duties of supervisors shall be borne by the Company.

### **Supervisory Committee**

The Company shall have a Supervisory Committee, comprising of six Supervisors, of which the proportion of employee representatives shall not be lower than one third. The Supervisory Committee shall have one chairman, who shall be appointed or removed by the votes of more than two thirds of the members of the Supervisory Committee.

The Supervisory Committee of the Company shall be accountable to all the shareholders, and shall supervise the financial operations of the Company and the legality and compliance of the fulfillment of duties of the Company's directors, president and other senior executives to protect the legitimate rights and interests of the Company and its shareholders. The Supervisory Committee shall exercise the following functions and powers:

- To examine financial operations of the Company;
- To supervise the work of the directors and senior executives, and propose dismissal of directors and senior executives who have violated laws, administrative rules, the Articles of Association or the resolutions of general meetings;
- To require directors and senior executives to make corrections if their conduct has damaged the interests of the Company;
- To require the Board to make corrections when any resolution of the Board runs against the laws and administrative regulations or regulations of CSRC;
- To review the financial reports and profit distribution schemes to be submitted by the Board to the general meetings; to conduct investigation if there is any doubt or any unusual circumstances in the Company's operations; and if necessary, to engage an accounting firm, law firm or other professional institutions to assist in their work at the expenses of the Company;
- To propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings in accordance with *Company Law*, to convene and preside over the general meetings;

- To propose motions to the general meeting;
- To coordinate with directors on behalf of the Company or initiate legal proceedings against directors and senior executives in accordance with the laws;
- To formulate remuneration plan and distribution plan for supervisors and submit specific reports on performance evaluation and remuneration of supervisors to the general meeting; and
- To exercise other functions and powers specified in the Articles of Association.

The supervisors may attend Board meetings and make inquiries or suggestions in relation to the resolutions of such meetings.

The Company shall bear all reasonable fees incurred in the retaining of such professionals as lawyers, certified public accountants, and practicing auditors by the Supervisory Committee in the exercise of its functions and powers.

Meetings of the Supervisory Committee shall be held at least once every six months, and shall be convened and presided over by the chairman of the Supervisory Committee. Where the chairman of the Supervisory Committee cannot or does not fulfill the duty thereof for any reason, more than half of the supervisors may elect a supervisor to convene and preside over the meetings of the Supervisory Committee. Supervisors may propose to convene a provisional meeting of the Supervisory Committee.

The notice of meetings of Supervisory Committee shall be served to all the supervisors 10 days in advance, and the notice of provisional meetings of the Supervisory Committee shall be served to all the supervisors five days in advance. Notice of meetings shall be delivered by post, email or fax. Where a provisional meeting of the Supervisory Committee needs to be convened in emergency, the notice of meeting may be sent by telephone or by other verbal means at any time, but the convener shall make explanations at the meeting.

### **Resolutions of Supervisory Committee**

Meetings of Supervisory Committee shall not be held unless over two thirds of supervisors are present. Every supervisor shall have the right to one vote. Resolutions made by the Supervisory Committee shall be approved by more than two thirds of the members of the Supervisory Committee.

Supervisors shall attend meetings of the Supervisory Committee in person. If any supervisor cannot attend the meeting for any reason, he may authorize another supervisor to act on his behalf. Voting on resolutions of the Supervisory Committee may be conducted by open ballot.

Minutes shall be recorded for meetings of the Supervisory Committee and shall be signed by the attending supervisors and the recorder. Any supervisor shall be entitled to have an explanatory note made in the minutes regarding his speech at the meeting. The minutes of meetings of the Supervisory Committee shall be kept by the secretary of the Board as the Company's permanent record.

**Qualifications and Obligations of Directors, Supervisors, President and Other Senior Executives**

In any of the following circumstances, a person shall not serve as director, supervisor, president or other senior executive of the Company:

- Without capacity or with limited capacity for civil conduct;
- Is sentenced due to taking graft or committing bribery, offences against property, disrupting socioeconomic order and has completed a term of imprisonment for less than five years, or is deprived of political rights due to offence and has completed a term of imprisonment for less than five years;
- Was ever the director or manager of any company or enterprise which was bankrupted due to bad operation and was responsible for the bankruptcy of the said company or enterprise, and it is less than three years since the completion of liquidation for the bankruptcy of the said company or enterprise;
- Was ever the legal representative of a company or an enterprise whose Business License was revoked due to illegal activities and was responsible for such illegal activities, and it is less than three years since the revocation of Business License of the said company or enterprise;
- Has large outstanding debts;
- Was ever the officer-in-charge of a stock exchange or securities registration and clearing institution or director, supervisor or senior executive of a securities firm who was dismissed for any act against the law or relevant discipline, and it is less than five years since the said dismissal;
- Was ever a lawyer, certified public accountant or a professional of an investment consulting institution, financial consulting institution, credit rating institution, asset valuation institution or certification institution who was disqualified for any act against the law or relevant discipline, and it is less than five years since the said disqualification;
- Was employee of stock exchange, securities registration and clearing institution, securities service provider or securities company and functionary of State organ discharged for violating the law or rules of discipline;
- Was functionary of State organ, or other person prohibited by laws or administrative regulations from concurrently holding position in the Company;
- Was banned from the market by securities regulatory authority and has not been relieved of the ban;

- Was given an administrative penalty by financial regulatory departments due to serious violation of laws or regulations, and it is less than three years since completion of execution of such penalty;
- Has been less than three years from the day when the person's professional qualification is revoked by the CSRC;
- Has been less than two years from the day when such person is identified as unfit for a position by the CSRC;
- Is under investigation by the judiciary authority for violation of the criminal law;
- Is disqualified as corporate leader in laws and regulations;
- Is not a natural person;
- Was ruled by the relevant regulatory authority that he has violated the relevant securities regulations and committed any fraudulent or dishonest act, and such ruling was made less than five years ago; or
- Other circumstances as stipulated in laws, regulations, or the listing rules at the location where the Company's shares are listed.

Any election, appointment of directors, supervisors, or employment of president or other senior executives in violation of the above provisions shall be invalid. The Company shall dismiss the director, supervisor, president and other senior executives if he is involved in the said circumstances during his term of office.

The validity of an act of a director, the president or other senior executives on behalf of the Company for a goodwill third person is not affected by any incompliance in the appointment, election or qualification thereof.

In fulfilling duties, the directors, supervisors, the president and other senior executives shall observe the principle of honesty and shall not set themselves in a position where their own interests conflict with their obligations. The said principle includes (but not limited to) the following obligations:

- To sincerely act in the best interest of the Company;
- To exercise their rights within their terms of reference;
- To exercise personally the discretion vested in them and not to allow themselves to be controlled by others and, save as permitted by laws or administrative regulations or with the informed consent of shareholders given at a general meeting, not to transfer the exercise of their discretion to others;

- To be equitable towards shareholders of the same class and fair towards shareholders of different classes;
- Not to conclude any contract, conduct any transaction or make any arrangement with the Company saved as specified in the Articles of Association or with the informed consent of shareholders given at a general meeting;
- Not to seek personal gains by using the property of the Company in any form without the informed consent of shareholders given at a general meeting;
- Not to abuse official powers to accept bribes or other unlawful income, and not to expropriate the Company's property in any form, including (but not limited to) opportunity favorable to the Company;
- Not to accept commissions in connection with the Company's transactions without the informed consent of shareholders given at a general meeting;
- To observe the Articles of Association, fulfil duties honestly, protect the interests of the Company, and not to seek personal gains by using their positions and powers in the Company;
- Not to compete with the Company in any form without the informed consent of shareholders given at a general meeting;
- Not to appropriate the monies of the Company or lend the same to others, not to deposit the Company's assets in the accounts of their own or others, and not to use the Company's assets as security for the personal debts of the shareholders of the Company or others;
- Without the informed consent of the shareholders at a general meeting, not to disclose any confidential information related to the Company acquired by them during the term of their office; not to use the said information save for the interest of the Company; however, they may disclose such information to a court or other governmental regulatory authorities in the following circumstances:
  - (1) As required by law;
  - (2) As required in the interests of the public; and
  - (3) As required for the interests of the said directors, supervisors, the president and other senior executives.

The honesty obligation of directors, supervisors, the president and other senior executives shall not end with the expiry of their terms of office, and their confidentiality obligation in respect of any commercial secrets of the Company shall continue after expiry of their terms of office. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances under which the relationship between the director and the Company was terminated.



If directors, supervisors, the president and other senior executives of the Company have any direct or indirect material interests in any contract, transaction or arrangement already concluded or under planning with the Company (exclusive of appointment contract with the Company), they shall responsively disclose the nature and extent of the said interests to the Board regardless whether the relevant matters are subject to approval by the Board in normal circumstances.

The Company shall not pay taxes for its directors, supervisors, the president and other senior executives in any way.

The Company shall not directly or indirectly provide loan or loan guarantee to the directors, supervisors, the president and other senior executives of the Company or its parent company, or to the connected persons of the aforesaid persons. Except when:

- The Company provides loan or loan guarantee for its subsidiaries;
- The Company, in accordance with the appointment contracts approved at the general meeting, provides loan, loan guarantee or other monies to the directors, supervisors, the president and other senior executives of the Company so that they may pay the expenses incurred for the Company or for fulfilling duties of the Company;
- If the normal business scope of the Company includes provision of loan and loan guarantee, the Company may provide loan and loan guarantee to the relevant directors, supervisors, the president and other senior executives and their connected persons, but the conditions for providing loan or loan guarantee shall be normal business conditions.

If the Company provides loan in violation of the said provision, the recipient of the loan shall return the same immediately regardless of the loan conditions.

If the directors, supervisors, the president or other senior executives fail to fulfil the obligations to the Company, the Company shall be entitled to take the following actions in addition to the rights and remedial measures under the relevant laws and administrative regulations:

- require the directors, supervisors, the president or other senior executives to compensate the Company for the losses arising from their neglect of duty;
- cancel the contracts or transactions concluded between the Company and the directors, supervisors, the president or other senior executives of the Company, or between the Company and a third person (if the third person knows or is supposed to know that the directors, supervisors, the president or other senior executives representing the Company have breached their obligations to the Company);
- require the relevant directors, supervisors, the president or other senior executives to surrender gains arising from breach of obligations;

- recover monies, including (but not limited to) commissions, received by the relevant directors, supervisors, the president or other senior executives but receivable by the Company;
- require the relevant directors, supervisors, the president or other senior executives to surrender interests earned or likely to be earned from monies payable to the Company.

The Company shall conclude written contracts with directors and supervisors in relation to their remunerations, subject to prior approval at a general meeting. The Company shall specify in the contracts concluded with the directors or supervisors in relation to remunerations that if the Company is acquired, the directors or supervisors shall be entitled to seek compensations or other monies for losing their positions or for retirement under the conditions approved at the general meeting.

The Articles of Association do not specify the age of retirement of directors.

## **FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND AUDIT**

### **Financial and Accounting Systems**

The Company shall formulate its financial and accounting systems in accordance with laws, administrative regulations and PRC accounting standards formulated by the financial authority under the State Council.

The financial statements of the Company shall be prepared in accordance with not only PRC accounting standards and regulations, but also the international accounting standards or the accounting standards of the overseas listing place. If the financial statements prepared under the two accounting standards are discrepant significantly, such discrepancy shall be indicated in the notes to the financial statements. The Company shall distribute the after-tax profit of the relevant fiscal year as per the less of the after-tax profits in the aforesaid two financial statements.

The interim results or financial data announced or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations as well as the international accounting standards or the accounting standards of the overseas listing place.

The Company shall fulfil its obligation of information disclosure in accordance with the requirements of regulatory authority and prepare its annual and interim financial reports in accordance with relevant laws, administrative regulations and department rules. An annual financial report of the Company shall at least include balance sheet, profit statement, cash flow statement, statement of changes in owners' equity and notes; an interim financial report of the Company shall at least include balance sheet, profit statement, cash flow statement and notes.

The Company shall announce two financial reports each fiscal year, i.e. interim financial report announced within 60 days after the end of the first six months of the fiscal year and the annual financial report announced within 120 days after the end of the fiscal year.

The Board shall, at each annual general meeting, submit to the shareholders the regulatory documents promulgated by relevant laws, administrative regulations, local governments and competent authorities, and the financial reports which shall be prepared by the Company as required by securities supervisory regulations at the listing place of the Company.

The Company shall not establish account books other than the statutory account books. The assets of the Company shall not be deposited in any personal account.

### **Profit Distribution**

Save as otherwise stipulated by the State, the Company shall distribute its after-tax profit of each fiscal year in the order of:

- Recovering losses of the preceding year;
- Withdrawing 10.0% after-tax profit each as general risk reserves and trading risk reserves;
- Withdrawing 10.0% after-tax profit as statutory common reserve fund;
- Withdrawing other funds in accordance with laws, regulations, department rules and Articles of Association;
- Distributing dividends to shareholders.

Such withdrawal may be stopped when the general risk reserves or statutory common reserve fund has accumulated to at least 50.0% of the registered capital of the Company. If the general meeting, in violation of the provision, distributes profits to shareholders before recovering losses and withdrawing statutory common reserve fund, the profits thus distributed shall be returned to the Company. The shares of the Company held by the Company shall not be subject to profit distribution.

After the profit distribution plan is adopted at the general meeting, the Board shall finish distributing dividends (or shares) within two months after conclusion of the general meeting.

Capital reserve includes the following:

- Premium arising from issue above the par value of the stock;
- Other revenues required by the financial authority under the State Council to be stated as capital reserve.

The common reserve fund of the Company shall be used to make up for the losses, enhance the operating scale or increase the capital of the Company. However, the capital reserve shall not be used to recover the losses of the Company.

Where the Company, upon adoption of a resolution by the general meeting, is to convert the common reserve fund into capital stock, new shares shall be distributed to the shareholders in proportion to their original share holdings. However, when statutory common reserve fund is converted into capital stock, the amount of the said fund left shall not be less than 25.0% of the registered capital of the Company.

The Company may profit dividends in cash or in shares. The Company shall attach importance to the reasonable investment returns to investors in its profit distribution and shall keep its profit distribution policies consistent and stable.

Cash dividends and other monies paid by the Company to holders of domestic shares shall be paid in RMB. Cash dividends and other monies paid by the Company to holders of overseas listed foreign shares shall be stated and announced in RMB and paid in foreign currency. Foreign currency needed by the Company to pay cash dividends and other monies to holders of overseas listed foreign shares shall be obtained pursuant to relevant State regulations on foreign exchange.

Monies paid for any shares before dunning shall have interests, but the holders of shares are not entitled to dividends announced later for the said monies. Regarding shareholders' collection of dividends, the Company shall be entitled to confiscate unclaimed dividend; however, such right shall not be exercised before the expiry of relevant applicable limitation period.

The Company's power to cease sending dividend warrants to holders of overseas listed foreign shares by post will not be exercised until such dividend warrants had been so left uncashed on two consecutive occasions. Such power may also be exercised after the first occasion on which such a dividend warrant is returned undelivered.

The Company is entitled to, as permitted by the law, sell the shares held by shareholders who are untraceable, where: (1) dividends are allocated for at least three times to such shares within a period of 12 years, but no shareholder has claimed any dividends; and (2) upon expiry of the 12 year period, the Company makes an announcement in newspapers and periodicals stating the intent to sell the shares, and notifies HKEx of the said intent.

The Company shall appoint collection agents for holders of overseas listed foreign shares. The collection agents shall, on behalf of the related shareholders, collect dividends and other payables distributed by the Company for the overseas listed foreign shares. The collection agents appointed by the Company for holders of foreign shares listed in Hong Kong shall be trust companies registered pursuant to *Trustee Ordinance* of Hong Kong.

### **Audit**

The Company practices internal auditing system. The internal audit department shall be independent from various business departments and branches, independently implement its functions of supervision and examination such as compliance review, financial auditing, business auditing and risk control, and be responsible for proposing suggestions for improving internal control system and urging relevant responsible units to make improvement in time. The internal audit department shall be accountable to the Board of the Company and shall report the building and implementation of the Company's internal control to the Supervisory Committee and senior executives. A responsibility management system shall apply for the internal auditing.

No departments or persons of the Company shall refuse, obstruct or damage internal auditing, and those who fight against, take revenge on or frame up auditors must be severely punished.

The internal audit system and duties of the auditors shall be subject to the approval of the Board. The officer in charge of internal auditing shall be accountable to the Board and report his work to the same.

#### **APPOINTMENT OF ACCOUNTING FIRM**

The Company shall appoint a qualified independent accounting firm to audit the annual financial reports and other financial reports of the Company.

The term of appointment of the accounting firm for the Company shall be from conclusion of one annual general meeting to conclusion of the next annual general meeting.

The accounting firm appointed by the Company shall have the following rights:

- To access the account books, records and vouchers, and to ask directors, president or other senior executives to provide relevant documents and explanations;
- To require the Company to take all reasonable steps to obtain from its subsidiaries any information and explanations necessary for the discharge of its duties;
- To be present at general meetings, get notice of general meeting or other information relating to general meetings, and deliver speeches at general meetings in relation to the matters concerning the accounting firm of the Company.

Regardless of the terms in the contract concluded between the accounting firm and the Company, the general meeting may, through an ordinary resolution, dismiss the said accounting firm before expiry of the term thereof. In the event of any rights claimed by the accounting firm against the Company, the said rights shall not be affected.

The remunerations of the accounting firm or the method for determining the same shall be subject to the decision of the general meeting. The remunerations of the accounting firm appointed by the Board shall be determined by the Board. Appointment, dismissal or non-appointment of the accounting firm shall be subject to decision at the general meeting and shall be filed with the securities regulatory authority under the State Council.

Where the Company dismisses or does not continue appointing the accounting firm, prior notice shall be given to the accounting firm, and the accounting firm shall be entitled to state its opinions to the general meeting. Where the accounting firm tenders its resignation, they shall state to the general meeting whether the Company has anything inappropriate.

The accounting firm may resign by placing a written notice of resignation at the legal address of the Company. The aforesaid notice shall include a statement that its resignation does not involve any information to be disclosed to the shareholders or creditors of the Company or a statement that any information is to be disclosed. If the notice of resignation of the accounting firm contains a statement that any information is to be disclosed, the accounting firm may require the Board to convene an extraordinary general meeting to listen to its explanation about the resignation.

#### **NOTICE AND ANNOUNCEMENT**

The notice of the Company may be served as follows:

- By personal delivery;
- By post;
- By e-mail;
- By fax;
- By announcement on the website designated by the Company and stock exchanges in accordance with laws, regulations and the listing rules at the location where the Company's shares are listed;
- By bulletin;
- By other means agreed before between the Company and the recipient or approved by the recipient; and
- By other means approved by the regulatory authority at the location where the Company's shares are listed or specified in the Articles of Association.

Where a notice of the Company is served by announcement, the aforesaid notice shall be deemed as received by the relevant persons once it is announced, except for otherwise specified by the regulatory authority at the location where the Company's shares are listed.

Any notice sent by the Company to the holders of overseas listed foreign shares, if sent by bulletin, shall be submitted in electronic form to the HKEx for real-time publication through the electronic publication system of HKEx on the same date according to local listing rules, so as to be published on the websites of HKEx and the Company. In addition, the aforesaid notice shall be sent by personal delivery or prepaid mail to the registered addresses in the register of holders of overseas listed foreign shares according to local listing rules, so that the shareholders are fully informed and have enough time to exercise their rights or act in accordance with the notice.

The holders of overseas listed foreign shares of the Company may obtain in written form (by e-mail or by post) the information about the Company that the Company shall send to the shareholders, and may choose to receive either or both of the Chinese and English versions. The holders of overseas listed foreign shares may, in a reasonable period, also notify the Company in writing in advance to revise the means of receiving the aforesaid information and the relevant version thereof according to proper procedures.

Although the Company is required to provide written information to shareholders according to the preceding paragraph, if the Company has obtained the shareholders' prior written consent or implied consent according to relevant laws and regulations and the Hong Kong Listing Rules amended from time to time, it may send information to shareholders by e-mail or via publication on website of the Company.

The accidental omission to give notice of meeting to, or non-receipt of notice of meeting by, any person entitled to receive notice shall not invalidate the meeting and the resolutions adopted at the meeting.

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 CSRC. If the Company is required to issue announcements to the holders of overseas listed foreign shares according to the Articles of Association, relevant announcements shall also be published by means specified in Hong Kong Listing Rules.

## **MERGER, DIVISION, DISSOLUTION AND LIQUIDATION**

### **Merger and Division**

In respect of the merger or division of the Company, the Board of the Company shall propose a plan and have it adopted following the procedure specified in the Articles of Association, and go through relevant examination and approval formalities pursuant to laws. Any shareholder objecting to merger or division of the Company shall be entitled to require the Company or the shareholders approving merger or division of the Company to buy his shares at a fair price.

In the event of merger or division of the Company, the parties concerned shall conclude a merger or division agreement and prepare balance sheets and property inventories. The Company shall notify its creditors within 10 days and publish an announcement in a newspaper within 30 days after the date of the Company's merger or division resolution. The creditors may require the Company to repay debts or provide corresponding guarantees within 30 days after receipt of the notice or within 45 days after the announcement if the creditors haven't received the notice.

The assets, credits and debts of the parties to the merger or division shall be specified in contracts. The credits and debts of the Company after merger shall be inherited by the company subsisting after merger or by the newly established company. Where the Company is divided, its properties shall be divided accordingly. The companies after division shall bear joint liability for the debts of the Company before division, save as otherwise specified in the written agreement on debt repayment reached between the Company and its creditors before division.



Change in registered particulars arising from merger or division of the Company shall be registered with the company registration authority according to law. If the Company is dissolved, it shall be deregistered according to law. If a new company is established, such establishment shall be registered according to law.

### **Dissolution and Liquidation**

In any of the following circumstances, the Company shall be dissolved and liquidated according to law upon approval by securities regulatory authorities of the state:

- Circumstance for dissolution specified in the Articles of Association arises;
- The general meeting have resolved to dissolve the Company;
- Merger or division of the Company entails dissolution;
- The business license is revoked according to law, or the Company is ordered to close or is cancelled;
- If the Company gets into serious trouble in operations and management and continuation may incur material losses of the interests of the shareholders, and no solution can be found through any other channel, the shareholders holding more than 10.0% of the total voting rights of the Company may request the people's court to dissolve the Company according to law; and
- The Company is declared bankrupt according to law because it is unable to pay its debts as they fall due.

In the circumstance set out in (1) above, the Company may continue to subsist by amending the Articles of Association. If the Company is dissolved pursuant to (1), (2), (4) or (5) above, it shall establish a liquidation committee within 15 days after the dissolution circumstance arises. The liquidation committee shall comprise members determined by the directors or the general meeting. If the liquidation committee is not duly set up, the creditors may request the people's court to designate related persons to form a liquidation committee to carry out liquidation.

Upon establishment of the liquidation committee, the powers of the Board and president shall cease forthwith. The Company shall subsist in the course of liquidation but shall not conduct any business operations unrelated to liquidation. The liquidation committee shall exercise the following functions and powers:

- To examine and take possession of the Company's assets and prepare the balance sheet and a property inventory;
- To inform creditors by notice or announcement;
- To deal with the outstanding businesses of the Company relating to liquidation;

- To pay outstanding taxes and the taxes arising during liquidation;
- To settle claims and debts;
- To dispose of the remaining assets of the Company after repayment of debts; and
- To represent the Company in civil proceedings.

The liquidation committee shall notify all creditors within 10 days after its establishment and shall make announcements in newspapers within 60 days. The creditors shall declare their rights to the liquidation committee within 30 days after receipt of the notice or within 45 days after announcement if the creditors haven't received the notice. The creditors shall explain matters relating to their rights and provide relevant evidential documents. The liquidation committee shall register the creditor's rights. In the creditor's rights declaration period, the liquidation committee shall not make repayment to the creditors.

After the liquidation committee has examined and taken possession of the assets of the Company and prepared a balance sheet and a property inventory, it shall formulate a liquidation proposal and submit it to the general meeting or the relevant competent authority and people's court for confirmation. The Company shall, in proportion to the shares held by the shareholders, distribute the properties of the Company remaining after successive payment of the liquidation expenses, employees' salaries, social insurance expenses and statutory compensations, outstanding taxes, and the Company's debts.

After the liquidation committee has examined and taken possession of the assets of the Company and prepared a balance sheet and a property inventory, if it discovers that the Company's assets are insufficient to repay its debts in full, it shall immediately apply to the people's court to declare the Company bankrupt. Following a ruling by the people's court that the Company is bankrupt, the liquidation committee shall transfer to the people's court all matters relating to the liquidation.

After completion of liquidation of the Company, the liquidation committee shall prepare liquidation reports, income and expenditure statements and account books in respect of the liquidation period and, after verification of the Chinese certified public accountants, shall submit the same to the general meeting or the relevant competent authority and people's court for confirmation. The liquidation committee shall, within 30 days after obtaining confirmation from the general meeting or relevant competent authority and people's court, cancel registration of the Company with the company registration authority and announce termination of the Company.

#### **Amendment to the Articles of Association**

The Company may amend the Articles of Association pursuant to laws, administrative regulations and Articles of Association. The Company shall amend the Articles of Association in any of the following circumstances:

- After amendments are made to *Company Law* or other relevant laws and administrative regulations, the Articles of Association run counter to the said amendments;

- The Company's conditions have changed, and such change is not covered in the Articles of Association; and
- The general meeting has resolved to amend the Articles of Association.

If the amendment approved by the general meeting to Articles of Association involves any content of *Mandatory Provisions*, the said amendment shall be subject to approval by the securities regulatory authority; other matters shall be submitted to the securities regulatory authority of the State for examination and approval or recording where necessary; if the amendment involves registration of the Company, the involved change shall be registered pursuant to law.

### **Settlement of Disputes**

In the event of any dispute or claim between a holder of overseas listed foreign shares and the Company, between a holder of overseas listed foreign shares and a director, a supervisor, the president or other senior executives, and between a holder of overseas listed foreign shares and a holder of domestic shares arising from rights and obligations specified in the Articles of Association, *Company Law* and other relevant laws and administrative regulations and relating to the affairs of the Company, the parties concerned shall submit the said dispute or claim for arbitration.

The aforesaid dispute or claim submitted for arbitration shall be the entire dispute or claim; all the persons who complain for the same reason or who are required to participate in the settlement of the dispute or claim shall accept the arbitration award if they are the Company or its shareholders, directors, supervisors, the president, or other senior executives.

Disputes relating to definition of shareholders and shareholders' register may be settled other than through arbitration.

The applicant for arbitration may select China International Economic and Trade Arbitration Commission for arbitration following the arbitration rules thereof or select HKIAC for arbitration following the securities arbitration rules thereof. After the applicant for arbitration submits the dispute or claim for arbitration, the other party shall accept arbitration at the arbitral institution selected by the applicant.

If the applicant for arbitration selects HKIAC for arbitration, either party may request that the arbitration be conducted in Shenzhen following the securities arbitration rules of HKIAC.

The arbitration award made by the arbitral institution shall be final and binding on both parties.

## 1. FURTHER INFORMATION

### A. Incorporation

Our Company was established under the PRC law as a joint stock company with limited liability on November 8, 2002. The registered office and headquarters of our Company in PRC is No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China.

Our Company has established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and has been registered as a non-Hong Kong company under Part XI of the then Companies Ordinance on December 23, 2013. Ms. KWONG Yin Ping, Yvonne has been appointed as the authorized representative of our Company under the Companies Ordinance for the acceptance of service of process on behalf of our Company in Hong Kong. Her address for acceptance of service of process is 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

As we are incorporated in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus. A summary of our Articles of Association is set out in Appendix V to this prospectus.

### B. Changes in the registered capital of our Company

At the time of the establishment of our Company on November 8, 2002, our registered capital was RMB1,033,790,000, divided into 1,033,790,000 shares with nominal value of RMB1.00 each, all of which were credited as fully paid up.

In June 2008, the registered capital of our Company was increased from RMB1,033,790,000 to RMB2,033,515,700, divided into 2,033,515,700 shares with nominal value of RMB1.00 each, all of which were credited as fully paid up.

Immediately upon completion of the Global Offering, the registered capital of our Company will be RMB2,631,615,700, made up of 1,973,705,700 Domestic Shares and 657,910,000 H Shares (including 59,810,000 H Shares converted from Domestic Shares and held by NSSF), with nominal value of RMB1.00 each.

Save as disclosed in this Appendix, there has been no alteration in our registered capital since our establishment.

**C. Resolutions passed at our extraordinary shareholders' meeting on December 16, 2013**

At our extraordinary shareholders' meeting held on December 16, 2013, among other things, the following resolutions were passed by the Shareholders:

- (a) approving the issue of the H Shares by the Company and the Listing, whereby the number of H Shares to be issued shall not exceed a total of 678,000,000 Shares; the issue price of the H Shares will be decided upon, among other things, the completion of the bookbuilding process for the Listing; the state-owned shareholders of the Company will transfer to NSSF such number of Domestic Shares as in aggregate would be equivalent to 10% of the Offer Shares;
- (b) subject to the completion of the Global Offering, the Articles of Association which has been approved and adopted shall become effective on the Listing Date; and
- (c) authorizing the Board to handle all other matters relating to, among other things, the issue of the H Shares and the Listing.

**2. REORGANIZATION**

Prior to the Global Offering, we acquired Central China Futures and established ZDKY Venture Capital, ZZKY Venture Capital, Ashmore-CCSC Fund Management and ZZKY Venture Capital Fund. One of our promoters, Xuji Group also transferred all its equity interest in our Company to other parties. For details, see "History and Corporate Structure" of this prospectus. As confirmed by our PRC legal advisors, Beijing Junzhi Law Offices, we have obtained necessary approvals from the relevant PRC regulatory authorities required for the implementation of the said acquisition, establishments, and transfers.

**3. FURTHER INFORMATION OF OUR SUBSIDIARIES**

The list of our principal subsidiaries (as defined under the Hong Kong Listing Rules) as of December 31, 2013 is set out under the financial statements in the Accountant's Report as included in Appendix I to this prospectus. Saved 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 prospectus.

In November 2011, our Company injected RMB30 million capital into Central China Futures and increased its registered capital from RMB80 million to RMB110 million. Following the said capital injection, our shareholding in Central China Futures increased to 92.55%.

#### 4. 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 two years preceding the date of this prospectus which are or may be material and a copy of each has been delivered to the Registrar for registration:

- (a) a tripartite agreement (《三方協議》) dated July 5, 2012, entered into among our Company, Ashmore Investment Management Limited (安石投資管理有限公司), and Aviva Investor Global Services Limited (英杰華投資集團全球服務有限公司), pursuant to which the parties agreed that, among other things, Ashmore Investment Management Limited would replace Aviva Investor Global Services Limited as the promoter of a joint venture fund management company to be established with our Company;
- (b) a promoter and shareholder agreement (《發起人及股東協議》) dated July 26, 2012, entered into between our Company and Ashmore Investment Management Limited, pursuant to which the parties agreed to set up Ashmore-CCSC Fund Management with a registered capital of RMB200 million;
- (c) a promotion and cooperation agreement (《發起合作協議書》) dated December 17, 2012, entered into between ZDKY Venture Capital (which was known as Central China Dingsheng Venture Capital Management Co., Ltd. (中原鼎盛創業投資管理有限公司) before April 22, 2013) and Luoyang Venture Capital Co., Ltd., pursuant to which the parties agreed, among other things, to set up ZZKY Venture Capital with a registered capital of RMB10 million;
- (d) a partnership agreement (《合伙協議》) dated June 29, 2013, entered into among ZZKY Venture Capital, ZDKY Venture Capital, Luoyang Venture Capital Co., Ltd. (洛陽創業投資有限公司), Luoyang Liuhe Hengji Investment Co., Ltd. (洛陽六合恒基投資有限公司), Luoyang Fanya Deconation Engineering Co., Ltd. (洛陽泛亞裝飾工程有限公司), Shanghai Broad Investment Management Co., Ltd. (上海柏帝投資管理有限公司), Yichuan County Baizhong Alloy Furnace Co., Ltd. (伊川縣百眾合金爐料有限公司), Luoyang Baiwan Mutton Soup Catering Management Co., Ltd. (洛陽市百碗羊湯餐飲管理有限公司) and Luanchuan County Chengzhi Industry Co., Ltd. (欒川縣誠志實業有限公司), pursuant to which the parties agreed, among other things, to set up ZZKY Venture Capital Fund with a total registered capital of RMB110 million;
- (e) a non-competition agreement (《避免同業競爭協議》) dated March 10, 2014, entered into between our Company and Henan Investment Group, pursuant to which Henan Investment Group agreed that, among other things, neither itself nor its controlled entities will, engage or participate in any business or any activities that competes or may compete with our principal business. See “Relationship with the Controlling Shareholder – Non-competition Agreement with our Controlling Shareholder”;
- (f) an undertaking letter (《承諾函》) dated March 10, 2014 given by Henan Investment Group to our Company, pursuant to which Henan Investment Group undertook to bear the relevant loss suffered by us arising from: (1) our failure to obtain the land use right certificate of a parcel of land; and (2) the title defects of certain properties leased by us. See “Business – Properties”;

- (g) an undertaking letter (《承諾函》) dated May 16, 2014 given by Henan Investment Group to our Company, pursuant to which Henan Investment Group undertook to indemnify us in full against all losses arising from any legal proceedings in relation to the dispute of the purchase of treasury bonds with Nanyang Pension Association. See “Business – Legal Proceedings” of this prospectus;
- (h) a cornerstone investment agreement dated June 6, 2014 entered into among our Company, Mao Yuan Capital Limited, Cao Junsheng, CCB International Capital Limited, ICBC International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited and DBS Asia Capital Limited, pursuant to which Mao Yuan Capital Limited agreed to subscribe for our H Shares in the amount of USD35,000,000 divided by the Offer price, rounded down to the nearest whole board lot of 1,000 H Shares;
- (i) a cornerstone investment agreement dated June 6, 2014 entered into among our Company, Sunny Empire Investment Limited, Zhang Junjie, CCB International Capital Limited, ICBC International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited and DBS Asia Capital Limited, pursuant to which Sunny Empire Investment Limited agreed to subscribe for our H Shares in the amount equal to USD25,000,000 divided by the Offer price, rounded down to the nearest whole board lot of 1,000 H Shares; and
- (j) the Hong Kong Underwriting Agreement.

## B. Sino-Foreign Equity Joint Venture

Set forth is the information of the equity joint venture we are interested in:

### *Ashmore-CCSC Fund Management*

Parties and equity interest: . . . . .	Central China Securities Co., Ltd.	51%
	Ashmore Investment Management Limited	49%
Capital contribution: . . . . .	Central China Securities Co., Ltd.	RMB102 million
	Ashmore Investment Management Limited	RMB98 million
Registered capital: . . . . .	RMB200 million	
Terms of joint venture: . . . . .	N/A	
Date of establishment: . . . . .	January 23, 2013	
Scope of business: . . . . .	fund formation and distribution, management of separately managed accounts, asset management and other businesses as approved by the CSRC	
Nature: . . . . .	Sino-foreign equity joint venture	

Any equity transfer of Ashmore-CCSC Fund Management shall be subject to pre-emptive rights of the joint venture shareholders as set out in the joint venture contract and articles of association of Ashmore-CCSC Fund Management. Equity of Ashmore-CCSC Fund Management shall only be transferred to non-joint venture shareholders upon the written approval from the



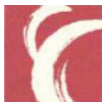
other joint venture shareholder. The entitlements of the joint venture shareholders in profits, dividends and other distributions are in proportion to their capital contribution ratios. The board of directors of Ashmore-CCSC Fund Management consists of nine members, of which three executive directors and two independent directors should be appointed by our Company, two directors and one independent director should be appointed by Ashmore Investment Management Limited. The chairman of the board should be nominated by our Company, whilst the vice chairman and general manager should be nominated by Ashmore Fund Management Limited. The chairman, vice chairman and general manager shall all be appointed by the board of directors.

### C. Our intellectual property rights

As of the Latest Practicable Date, our Company has registered or has applied for the following intellectual property rights which are material in relation to our Company's business.

#### *Trademarks*

As of the Latest Practicable Date, we have been granted to use or applied for the registration of the following trademarks in the PRC:

No.	Owner	Trademark	Registration Number	Duration	Class
1.	Company		3436323	November 28, 2004 – November 27, 2014	36
2.	Company	财富中原	12407896	Applied on April 11, 2013	35
3.	Company	财富中原	12407974	Applied on April 11, 2013	36
4.	Company	中原快车道	12408065	Applied on April 11, 2013	35
5.	Company	中原快车道	12408073	Applied on April 11, 2013	36
6.	Company	中原宝典	12408079	Applied on April 11, 2013	36
7.	Company	中原宝典	12408090	Applied on April 11, 2013	35
8.	Company	中原管家	12408104	Applied on April 11, 2013	35

<u>No.</u>	<u>Owner</u>	<u>Trademark</u>	<u>Registration Number</u>	<u>Duration</u>	<u>Class</u>
9.	Company		12408119	Applied on April 11, 2013	36
10.	Company		12408144	Applied on April 11, 2013	35
11.	Company		12408152	Applied on April 11, 2013	36

As of the Latest Practicable Date, we have applied for the registration of/registered the following trademarks in Hong Kong:

<u>No.</u>	<u>Owner</u>	<u>Trademark</u>	<u>Registration Number</u>	<u>Duration</u>	<u>Class</u>
1.	our Company	CCSC	302814309	November 25, 2013 – November 24, 2023	36
2.	our Company	A  B  C  D 	302799550	November 12, 2013 – November 11, 2023	36

<u>No.</u>	<u>Owner</u>	<u>Trademark</u>	<u>Application Number</u>	<u>Application Date</u>	<u>Class</u>
3.	our Company	中州证券 CENTRAL CHINA SECURITIES	302857726	Applied on January 6, 2014	36

*Copyrights*

As of the Latest Practicable Date, the following are copyrights that we have been granted for registration in the PRC and considered to be or may be material to our business:

<u>No.</u>	<u>Owner</u>	<u>Name of Copyright</u>	<u>Registration Number</u>	<u>Duration</u>	<u>Class</u>
1.	our Company	《中原管家標識》	國作登字-2013-F-00091946	March 8, 2012 – March 7, 2062	Art
2.	our Company	《中原快車標識》	國作登字-2013-F-00091945	March 8, 2012 – March 7, 2062	Art
3.	our Company	《中原寶典標識》	國作登字-2013-F-00091944	December 16, 2009 – December 15, 2059	Art
4.	our Company	《財富中原標識》	國作登字-2013-F-00091943	December 16, 2009 – December 15, 2059	Art

*Domain Name*

As of the Latest Practicable Date, we have registered the following domain names:

<u>Domain Name</u>	<u>Registrant</u>	<u>Expiry Date</u>
ccnew.com.cn . . . . .	The Company	November 2023
ccnew.com . . . . .	The Company	November 2023
967218.com . . . . .	The Company	April 2015
中原证券股份有限公司.net . . . . .	The Company	August 2018
中原证券股份有限公司.com . . . . .	The Company	August 2018
财富中原.net . . . . .	The Company	August 2018
中原证券.net . . . . .	The Company	August 2018
掌中网.net . . . . .	The Company	August 2018
掌中网.com . . . . .	The Company	August 2018
中原证券.cn . . . . .	The Company	September 2018
中原证券股份有限公司.cn . . . . .	The Company	September 2018
中原证券股份有限公司中原證券股份有限公司 (general website) . . . . .	The Company	September 2014
ccnew (general website) . . . . .	The Company	August 2018
掌中网 (wireless website) . . . . .	The Company	September 2014
掌中网掌中網 (general website) . . . . .	The Company	September 2014
ccnew (wireless website) . . . . .	The Company	April 2015
中原证券 (wireless website) . . . . .	The Company	December 2015
中原证券中原證券 (general website) . . . . .	The Company	September 2014
中原证券股份有限公司 (wireless website) . . . . .	The Company	April 2015
zyfutures.com . . . . .	Central China Futures	January 2022
acfund.com.cn . . . . .	Ashmore-CCSC Fund Management	February 2016

## 5. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

### A. Particulars of Directors' and Supervisors' Contracts

Each of the Directors entered into a service contract with our Company on June 4, 2014. The principal particulars of these service agreements are (a) for a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained (b) are subject to termination in accordance with their respective terms and (c) provision on arbitration. The service agreements may be renewed in accordance with our Articles of Association and the applicable laws and regulations.

Each of the Supervisors entered into a contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration with our Company on June 4, 2014.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

## **B. Emolument of Directors and Supervisors**

The aggregate amounts of emolument (including remuneration, pension, discretionary bonus and other welfares) which were paid to the Directors and Supervisors during the three years ended December 31, 2011, 2012 and 2013 were approximately RMB6.1 million, RMB7.9 million and RMB6.4 million, respectively.

Save as disclosed above, no other payments have been paid or are payable by us to the Directors and Supervisors in respect of the three years ended December 31, 2011, 2012 and 2013.

There is no arrangement under which any Director has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments by any Director during the current financial year.

Under the existing arrangements currently in force, the aggregate emolument payable to the Directors and the Supervisors for the year ending December 31, 2014 are estimated to be approximately RMB4.2 million and RMB2.7 million, respectively.

Each of the Directors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

## **6. DISCLOSURE OF INTERESTS**

### **A. Disclosure of Interests of the Directors and Supervisors**

Immediately following the completion of the Global Offering, none of our Directors (including the President of our Company) or Supervisors has any interest or short positions in our Shares, underlying shares of equity derivatives and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required to be recorded in the register under Section 352 of the SFO or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules.

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 Shareholder's Interest**

For information on the persons who will, immediately following the completion of the Global Offering, 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, directly or indirectly, be interested in 10.0% 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, please see the section headed "Substantial Shareholders" of this prospectus.

**C. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of the Directors, Supervisors or the parties listed in the paragraph headed "Qualification of Experts" of this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to our Group, or are proposed to be acquired or disposed of by or leased to our Group;
- (b) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;
- (c) none of the parties listed in the paragraph headed "Qualification of Experts" of this Appendix:
  - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiary; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities;
- (d) save as disclosed in this prospectus, none of the Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Hong Kong Stock Exchange;
- (e) as of the Latest Practicable Date, none of the Directors, Supervisors, or their associates, or any Shareholders (who to the knowledge of the Directors owns more than 5.0% of our issued share capital), had any interest in our top five business customers;

- (f) no amount, securities or benefit has been paid, allotted or given within the two years preceding the date of this prospectus to the promoter nor is any such amount, securities or benefit intended to be paid, allotted or give. None of the Directors or Supervisors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business; and
- (g) none of the Directors or Supervisors has been paid in cash or shares or otherwise by any person in respect of the three years ended December 31, 2011, 2012 and 2013, as an inducement to join or upon joining the Company, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

## **7. 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 our Company or our subsidiaries.

### **B. Litigation**

As of the Latest Practicable Date, save as disclosed in this prospectus, we are not engaged in any material litigation, arbitration or administrative proceedings which could have a material effect on our financial condition or results of operations. So far as the Directors are aware, no such litigation, arbitration or administrative proceedings of material importance is pending or threatened against the Company.

### **C. Restrictions on Share Repurchase**

Please see the section headed “Appendix IV – Summary of Principal Legal and Regulatory Provisions – Restrictions on purchase and subscription of its own securities” in this prospectus for details.

### **D. Sole Sponsor**

The Sole Sponsor, namely, CCB International Capital Limited satisfies the independence criteria applicable to sponsor pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

The sponsor fee payable by our Company is HK\$8 million.

### **E. Compliance advisor**

We have appointed Guotai Junan Capital Limited as our compliance advisor effective from the Listing Date in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

**F. Preliminary expenses**

The preliminary expenses of our Company are HK\$550,000 and were borne by our Company.

**G. Qualification of experts**

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this prospectus, are as follows:

<b>Name</b>	<b>Qualification</b>
CCB International Capital Limited	a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants and Internal Control Consultant
Beijing Junzhi Law Offices	PRC legal advisors
Mr. YAN John M. Y.	Senior Counsel, Barrister-at-law

**H. 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 our 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, please see “Appendix III – Taxation and Foreign Exchange” to this prospectus.

**I. No material adverse change**

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2013.

**J. Binding effect**

This prospectus shall have the effect, if an application is made in pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance so far as applicable.



**K. Miscellaneous****Save as disclosed in this prospectus:**

- (a) within the two years immediately preceding the date of this prospectus: (i) we have not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash and (ii) no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any of the shares or loan capital of our Company;
- (b) no share or loan capital of our Group is under option or is agreed conditionally or unconditionally to be put under option;
- (c) there are no founder, management or deferred shares nor any debentures in our Company;
- (d) the Company has no outstanding convertible debt securities or debentures;
- (e) there are no arrangements under which future dividends are waived or agreed to be waived;
- (f) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (g) there have been no interruptions in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (h) saved as disclosed in this prospectus as to the short-term notes issued in January 2014 and the corporate bond issued in April 2014 (see “Summary – Recent Development and No Material Adverse Change” of this prospectus), no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought; and
- (i) our Company currently does not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-Foreign Joint Venture Law of the PRC.

**L. Consents**

Each of the Sole Sponsor, PricewaterhouseCoopers, Beijing Junzhi Law Offices and Mr. YAN John M.Y., S.C, as referred to in “G. Qualification of Experts” in this Appendix has given and has not withdrawn its or his respective written consent to the issue of this prospectus with the inclusion of any of its or his certificates, letters, opinions or reports and the references to its or his name included herein in the form and context in which it is included.

**M. Promoters**

The promoters of our Company are Xuji Group, Henan Economic and Technology Development, Henan Construction and Investment, Anyang Iron & Steel Group, Anyang Economic Development, Anyang Trust, Shenhua Group, Jiaozuo Economic and Technology Development and Hebi Construction and Investment. Save as disclosed in this prospectus, within two years immediately preceding the date of this prospectus, no cash, security or benefit has been paid, allotted or given or is proposed to be paid, allotted or given to our promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

**N. Related party transactions**

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in “Connected Transactions” and in “Appendix I – Accountant’s Report – 49 Related Party Transactions.”

**O. Personal guarantees**

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

**P. Bilingual prospectus**

The English language and Chinese language versions of this prospectus 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).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “Appendix VI – Statutory and General Information – Other Information – Consents”;
- (c) a copy of each of the material contracts referred to in “Appendix VI – Statutory and General Information – Further Information about our Business – Summary of our Material Contracts.”; and
- (d) the statement of adjustments reported by PricewaterhouseCoopers.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Li & Partners at 22nd Floor, World-Wide House, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association (Chinese);
- (b) the Accountant’s Report prepared by PricewaterhouseCoopers, the text of which is set out in “Appendix I – Accountant’s Report”;
- (c) the statement of adjustments reported by PricewaterhouseCoopers;
- (d) the report on the unaudited pro forma financial information of the Group from PricewaterhouseCoopers, the texts of which are set out in “Appendix II – Unaudited Pro Forma Financial Information”;
- (e) the PRC legal opinions issued by our PRC legal advisors, Beijing Junzhi Law Offices, in respect of our general matters and property interests of the Group;
- (f) the material contracts referred to in “Appendix VI – Statutory and General Information – Further Information about our Business – Summary of our Material Contracts”;
- (g) the audited consolidated financial statements of the Group for each of the three years ended December 31, 2011, 2012 and 2013;
- (h) the written consents referred to in “Appendix VI – Statutory and General Information – Other Information – Consents”;

- (i) the service contracts referred to in “Appendix VI – Statutory and General Information – Further Information about our Directors and Supervisors – Particulars of Directors’ and Supervisors’ Contracts”; and
  
- (j) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof.



中州证券

Central China Securities Co., Ltd.