



国联证券股份有限公司
GUOLIAN SECURITIES CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)
Stock code: 1456

GLOBAL OFFERING

Joint Global Coordinators and Joint Lead Managers



Joint Sponsors



Joint Bookrunners



IMPORTANT

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



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

Number of Offer Shares under the Global Offering : 442,640,000 H Shares (comprising 402,400,000 H Shares to be offered by our Company and 40,240,000 Sale Shares to be offered by the Selling Shareholders)

Number of Hong Kong Offer Shares : 44,264,000 H Shares (subject to adjustment)

Number of International Offer Shares : 398,376,000 H Shares (comprising 358,136,000 H Shares to be offered by the Selling Shareholders and subject to adjustment)

Maximum Offer Price : HK\$8.25 per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value : RMB1.00 per H Share

Stock code : 1456

Joint Global Coordinators and Joint Lead Managers



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PRC Financial Advisor



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 (for themselves and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, June 26, 2015 (Hong Kong time) and, in any event, not later than Thursday, July 2, 2015 (Hong Kong time). The Offer Price will be not more than HK\$8.25 and is currently expected to be not less than HK\$7.10 per Offer Share. If, for any reason, the Offer Price is not agreed by Thursday, July 2, 2015 (Hong Kong time) between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders), 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\$8.25 for each Hong Kong Offer Share together with a brokerage fee of 1.0%, a SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$8.25.

The Joint Global Coordinators, on behalf of the Underwriters, and with our consent (for ourselves and on behalf of the Selling Shareholders) may, where considered appropriate, reduce the indicative Offer Price range of the Hong Kong Public Offering below that is stated in this prospectus (which is HK\$7.10 to HK\$8.25) 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 indicative Offer Price range of Hong Kong Public Offering 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.glsc.com.cn and on the website of the Stock Exchange at www.hkexnews.hk. Further details are set forth in "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

We are incorporated, and 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 Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" in 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.

EXPECTED TIMETABLE

| | Date ⁽¹⁾ |
|---|--|
| Latest time to complete electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾ | 11:30 a.m. on Friday, June 26, 2015 |
| Application lists open ⁽³⁾ | 11:45 a.m. on Friday, June 26, 2015 |
| Latest time for lodging WHITE and YELLOW Application Forms | 12:00 noon on Friday, June 26, 2015 |
| Latest time to give electronic application instructions to HKSCC ⁽⁴⁾ | 12:00 noon on Friday, June 26, 2015 |
| Latest time to complete payment for White Form eIPO applications by effecting Internet banking transfer(s) or PPS payment transfer(s) | 12:00 noon on Friday, June 26, 2015 |
| Application lists close | 12:00 noon on Friday, June 26, 2015 |
| Expected Price Determination Date | Friday, June 26, 2015 |
| Announcement of: | |
| <ul style="list-style-type: none"> • 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 allocation 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.glsc.com.cn⁽⁵⁾ and the website of the Stock Exchange at www.hkexnews.hk⁽⁶⁾ on or before | Friday, July 3, 2015 |
| 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 | Friday, July 3, 2015 |
| 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 | Friday, July 3, 2015 |
| H Share certificates in respect of wholly or partially successful applications will be dispatched or deposited into CCASS on or before ⁽⁷⁾ | Friday, July 3, 2015 |
| Refund cheques (if applicable) will be dispatched on or before ^(7 and 9) | Friday, July 3, 2015 |
| White Form e-Refund Payment Instructions will be dispatched on ^(7, 8 and 9) | Friday, July 3, 2015 |
| Dealings in H Shares on the Stock Exchange to commence at 9:00 a.m. on | Monday, July 6, 2015 |

Notes:

- (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 Friday, June 26, 2015, 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.

EXPECTED TIMETABLE

- (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 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 Friday, July 3, 2015. 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 to 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 the 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) 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.

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 Monday, July 6, 2015. 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 Guolian 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 jurisdictions 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 Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained on our website, located at www.gpsc.com.cn, does not form part of this prospectus.

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SUMMARY

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 28 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the leading integrated securities firms in Wuxi based on trading volume of agency sales of securities. We have comprehensive service network coverage and diversified product offerings that support our rapid growing business. According to Wind Info, our branch network is the most extensive in Wuxi among all PRC securities firms with branches there. In 2014, Wuxi had a nominal GDP of RMB820.5 billion, which was the third highest in Jiangsu province. In 2014, we ranked 46th among all PRC securities firms in terms of net income from agency sales of securities (for brokerage business), according to SAC. We have also strategically established our presence in Jiangsu province and other parts of China. We believe we are well-positioned to capitalize on the rapid growth in the securities industry in Wuxi as well as in Jiangsu province and the ample business opportunities emerging from the gradual relaxation of securities regulations in China. We provide a wide range of financial products and services to individuals, corporations, financial institutions and government entities. Our principal business lines include:

- **Brokerage:** We act as agent to our customers in the trading of stocks, funds and bonds and also provide other services, such as the sales of financial products, futures IB business and investment advisory business.
- **Investment banking:** We provide equity financing, debt financing and financial advisory services to institutional clients through our majority-owned subsidiary, Hua Ying Securities. We also directly provide listing and referral services as chief agency broker to help companies enter into the NEEQ.
- **Asset management and investment:** We offer collective asset management scheme, targeted asset management scheme and specialized asset management scheme to our clients. We also carry out direct investment business through our wholly-owned subsidiary, Guolian Capital.
- **Credit transactions:** We use the funds we own or raise to provide margin financing and securities lending services and engage in other types of capital-based intermediary businesses, such as securities-backed lending and securities repurchase.
- **Proprietary trading:** We engage in the trading of stocks, bonds and funds as well as derivatives with our own account to achieve investment gains.

COMPETITIVE STRENGTHS

As one of the leading integrated securities firms in Wuxi based on trading volume of agency sale of securities, we believe the following strengths differentiate us from our competitors: (i) we are well-positioned to benefit from the strong economic position of Wuxi and Jiangsu province; (ii) with an extensive branch network and broad customer base in Wuxi, our business is complemented by our strategic presence across Jiangsu province and China; (iii) strong product research and development capabilities and optimized business structure enable us to capture opportunities arising from PRC securities industry reforms; (iv) we have highly efficient operations, which result in cost-effective

SUMMARY

financial performance; (v) we benefit from the strong brand recognition of Guolian Group; (vi) we have an experienced senior management team with the support of a team of high-quality professionals; and (vii) we have prudent and effective risk management system and internal controls, as well as sophisticated IT systems.

BUSINESS STRATEGIES

In light of the recent liberalization of the PRC securities market, we aim to be at the forefront of innovation and capture growth opportunities in the marketplace and thereby, increase our profitability and sustain our rapid growth. We intend to achieve these goals through executing client-centric, innovation-driven strategies that are focused on balanced and synergistic growth among our various business lines. We will continue to focus on the securities market in Wuxi and Jiangsu province, and leverage our regional advantage to enhance our competitive strengths to expand our strategic presence elsewhere in China. Specifically, our business strategies include the following aspects: (i) strengthen our market position in the brokerage business and continue to promote its transformation to lay a solid foundation for the development of our other businesses; (ii) capture opportunities from PRC securities industry reform to strengthen our regional advantage, and gradually grow into a competitive modern investment bank; (iii) emphasize and expand our asset management business through product research and development; (iv) continue to expand our customer base to grow our margin financing and securities lending business, rapidly develop our other capital-based intermediary businesses and achieve stable long-term growth; (v) continue to expand the scale of our proprietary trading business; and (vi) further develop Internet trading, expand sales channels, improve platform construction and emphasize on Internet trading product innovation.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, our Controlling Shareholders, namely, Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial, are together entitled to exercise or control the exercise of 89.500% of the voting power at the general meetings of our Company. Immediately following completion of the Global Offering, Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial will together be entitled to exercise or control the exercise of 68.484% of the voting power at the general meetings of our Company, and therefore, they will continue to be our Controlling Shareholders.

Our principal businesses and those of our Controlling Shareholders are different, and except for Excluded Asset Management Business (as defined in “Relationship with our Controlling Shareholders—Excluded Asset Management Business”) and Excluded Direct Investment Business (as defined in “Relationship with our Controlling Shareholders—Excluded Direct Investment Business”), there are no other material businesses operated by our Controlling Shareholders that compete or are likely to compete with our businesses.

For details in relation to Excluded Asset Management Business and Excluded Direct Investment Business, please refer to “Relationship with our Controlling Shareholders—Excluded Asset Management Business” and “Relationship with our Controlling Shareholders—Excluded Direct Investment Business.”

Our Controlling Shareholders entered into a Non-competition Agreement in favor of our Group on June 15, 2015, pursuant to which our Controlling Shareholders have jointly and severally and irrevocably undertaken to our Group that, save for the Excluded Asset Management Business and businesses to be carried out by our Controlling Shareholders and their controlled entities (excluding members of our Group) under the circumstances as mentioned in “Relationship with Our Controlling Shareholders—Non-competition Agreement with our Controlling Shareholders—Exceptions,” they

SUMMARY

would not, and would procure that their controlled entities (excluding members of our Group) would not, during the restricted period, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, invest in, participate in, be engaged in and/or operate or be interested in (in each case whether as a shareholder, partner, agent, employee or otherwise) any business, which competes or is likely to compete, directly or indirectly, with the business of any member of our Group from time to time. Please refer to “Relationship with our Controlling Shareholders—Non-competition Agreement with our Controlling Shareholders” for further details.

HUA YING SECURITIES

As of the Latest Practicable Date, our Company held 66.700% of the equity interest in Hua Ying Securities, and the remaining 33.300% of the equity interest were held by RBS (a core connected person of our Company as a result of such shareholding). RBS is in the process of transferring its equity interest in Hua Ying Securities and such transfer is subject to the approvals from the relevant PRC regulatory authorities. Such transfer has not been completed as of the Latest Practicable Date.

SUMMARY OF FINANCIAL AND OPERATING INFORMATION

The following tables present our summary consolidated financial information as of and for the years ended December 31, 2012, 2013 and 2014. 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” beginning on page 260 to ensure its completeness.

Summary Consolidated Statements of Comprehensive Income

| | Year ended December 31, | | |
|--|-------------------------|----------------|------------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Revenue | | | |
| — Commission and fee income | 514.8 | 713.5 | 1,079.8 |
| — Interest income | 150.8 | 205.1 | 374.8 |
| — Net investment gains | 98.5 | 155.2 | 665.9 |
| | 764.1 | 1,073.8 | 2,120.5 |
| Other income | 8.3 | 5.7 | 11.1 |
| Total revenue and other income | 772.4 | 1,079.5 | 2,131.6 |
| Total expenses | (717.9) | (739.8) | (1,184.8) |
| Share of profit of investments in associates | 11.5 | 11.2 | 16.3 |
| Profit before income tax | 66.0 | 350.9 | 963.1 |
| Income tax expense | (19.4) | (91.1) | (232.7) |
| Profit for the year from continuing operations | 46.6 | 259.8 | 730.4 |
| Profit for the year from discontinued operations | 45.5 | 13.0 | — |
| Profit for the year | 92.1 | 272.8 | 730.4 |
| Profit for the year excluding profit contribution from net investment gains ⁽¹⁾ | 18.2 | 156.4 | 231.0 |

Note:

(1) Profit for the year excluding profit contribution from net investment gains is calculated based on our profit for the year minus our net investment gains and then adding back the profit tax for net investment gains (calculated at 25% profit tax rate).

We experienced significant growth in our revenue and profit for the years during the Track Record Period. Our revenue increased from RMB764.1 million for the year ended December 31, 2012

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to RMB2,120.5 million for the year ended December 31, 2014, representing a CAGR of 66.6%, primarily due to increases in (i) our commission and fee income, which grew from RMB514.8 million for the year ended December 31, 2012 to RMB1,079.8 million for the year ended December 31, 2014, primarily as a result of increases in our commission and fee income from securities brokerage due to increased trading volume resulting from more active trading in PRC stock market despite declining average brokerage commission rate, which decreased from 0.102% in 2012 to 0.074% in 2014, and increases in our underwriting commission and sponsorship fee, mainly due to our efforts to expand our equity and debt financing in 2014 in light of favorable market conditions, which resulted in significant growth in the total amount underwritten by us; (ii) our net investment gains, which increased from RMB98.5 million for the year ended December 31, 2012 to RMB665.9 million for the year ended December 31, 2014, primarily due to significant increase in our investment gains from our proprietary trading business and gains we made from our investments in self-developed collective asset management schemes as a result of our prudent investment allocation strategy; and (iii) our interest income, which grew from RMB150.8 million for the year ended December 31, 2012 to RMB374.8 million for the year ended December 31, 2014, mainly because we made significant strides in the expansion of our credit transactions business, including margin financing and securities lending, which we initiated in July 2012, and securities-backed lending, which we initiated in July 2013.

Our profit for the year also increased substantially from RMB92.1 million for the year ended December 31, 2012 to RMB730.4 million for the year ended December 31, 2014, representing a CAGR of 181.6%, primarily due to (i) substantial improvements in our investment gains from our proprietary trading, and investments we made in our self-developed collective asset management schemes resulting from our prudent investment allocation strategy; (ii) increases in our commission and fee income from our securities brokerage due to economy of scale of our securities brokerage business in light of more active trading in PRC stock market, and in investment banking businesses as a result of the expansion of our equity and bond financing; and (iii) an increase in interest income from our credit transactions business as a result of the rapid growth of our margin financing and securities lending business during the Track Record Period. In addition, our operating margin and net margin improved during the Track Record Period mainly because of our efforts to strategically adjust our revenue structure to focus on expanding businesses with higher profit margin, such as margin financing and securities lending, proprietary trading and investments in our self-development collective asset management schemes, and our ability to effectively control our operating costs by focusing on establishing “light branches,” which are usually less than 300 sq.m. in size and require less than RMB1.0 million in set-up cost and fewer on-site staff for enhanced operating efficiency, and transforming certain of our existing conventional securities branches to “light branches.” Please see “Financial Information” for additional information.

The rapid growth in our revenue and profit for the year during the Track Record Period was in line with our strategy to transform and supplement our traditional business model, which focuses on channel-based securities brokerage, investment banking and asset management businesses, by (i) developing an Internet trading services platform to expanded our brokerage customer base and trading platform; (ii) transforming conventional securities branches to “light branches” in order to reduce our operating cost and improve operational efficiency across our branch network; (iii) offering additional value-added services, including sales of self-developed asset management products and third-party financial products, such as fund products and trust products; (iv) expanding our margin financing and securities lending and other capital-based intermediary businesses, such as securities-backed lending, to further diversify the sources of our revenue; and (v) expanding our proprietary trading business and increasing the scale of our investment in self-developed collective asset management schemes to achieve higher investment return. These strategies comprise our transition plan during the Track Record Period, which resulted in the significant growth of our revenue and improvement of our operating margin and net margin. Please refer to “Business—Business Strategies”

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and “Financial Information—Factors Affecting Our Results of Operations” for the impact of our transition plan on our operations and financial performance during the Track Record Period.

Summary Consolidated Statements of Financial Position

| | As of December 31, | | |
|---|--------------------|-----------------|-----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Non-current assets | 500.8 | 464.9 | 525.6 |
| Current assets | 8,795.1 | 11,647.4 | 19,923.2 |
| Total assets | 9,295.9 | 11,932.3 | 20,448.8 |
| Non-current liabilities | 651.0 | 652.0 | 2,265.0 |
| Current liabilities | 5,392.5 | 7,819.7 | 13,835.2 |
| Total liabilities | 6,043.5 | 8,471.7 | 16,100.2 |
| Total equity | 3,252.4 | 3,460.5 | 4,348.6 |
| Total equity attributable to shareholders of the Company | 2,957.5 | 3,209.3 | 4,082.0 |

Summary Consolidated Cash Flow Statements

| | Year ended December 31, | | |
|--|-------------------------|-----------|---------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Net cash outflow from operating activities | (112.5) | (1,377.3) | (841.3) |
| Net cash (outflow)/inflow from investing activities | (110.7) | 148.9 | (205.4) |
| Net cash (outflow)/inflow from financing activities | (86.1) | (71.0) | 1,675.2 |
| Net (decrease)/increase in cash and cash equivalents | (309.3) | (1,299.4) | 628.5 |
| Effect of exchange rate changes on cash and cash equivalents | — | (0.3) | — |
| Cash and cash equivalents at beginning of the year | 2,452.8 | 2,143.5 | 843.8 |
| Cash and cash equivalents at end of the year | 2,143.5 | 843.8 | 1,472.3 |

Key Financial Data and Operating Indicators

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

| | Year ended December 31, | | |
|---|---------------------------------------|-------|-------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions, except percentages) | | |
| Operating profit⁽¹⁾ | 46.2 | 334.0 | 935.7 |
| Operating margin ⁽²⁾ | 6.0% | 31.1% | 44.1% |
| Adjusted operating margin ⁽³⁾ | 7.7% | 38.4% | 56.8% |
| Profit for the year | 92.1 | 272.8 | 730.4 |
| Net margin ⁽⁴⁾ | 12.1% | 25.4% | 34.4% |
| Adjusted net margin ⁽⁵⁾ | 15.4% | 31.4% | 44.3% |
| Return on average equity ⁽⁶⁾ | 3.2% | 8.8% | 19.6% |
| Return on average total assets ⁽⁷⁾ | 1.0% | 2.5% | 4.4% |

Notes:

- (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). 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.
- (6) Calculated by dividing the profit attributable to our Shareholders of the current year by the average amount of equity balance attributable to our Shareholders as of the end of the previous year and as of the end of the current year.
- (7) Calculated by dividing the profit attributable to our Shareholders of the current year by the average balance of total assets as of the end of the previous year and as of the end of the current year.

SUMMARY

The following table sets forth our segment revenue and other income, as well as the segment margin for the years indicated:

| | Year ended December 31, | | | | | | | | |
|---------------------------------|-------------------------|--------------|-----------------------------------|-------------------|--------------|-----------------------------------|-------------------|--------------|-----------------------------------|
| | 2012 | | | 2013 | | | 2014 | | |
| | (RMB in millions) | % of total | Segment margin (%) ⁽¹⁾ | (RMB in millions) | % of total | Segment margin (%) ⁽¹⁾ | (RMB in millions) | % of total | Segment margin (%) ⁽¹⁾ |
| Securities brokerage | 501.2 | 64.9 | 32.5 | 678.0 | 62.8 | 47.4 | 856.4 | 40.2 | 54.0 |
| Credit transactions | 4.2 | 0.5 | 57.1 | 67.5 | 6.3 | 85.2 | 204.4 | 9.6 | 78.6 |
| Investment banking | 165.4 | 21.4 | (14.6) | 144.1 | 13.3 | 2.6 | 363.7 | 17.1 | 16.7 |
| Proprietary trading | 49.0 | 6.3 | 86.3 | 160.5 | 14.9 | 68.7 | 462.9 | 21.7 | 85.9 |
| Asset management and investment | 21.9 | 2.8 | 54.8 | 13.0 | 1.2 | (66.9) | 221.6 | 10.4 | 78.9 |
| Others ⁽²⁾ | 32.6 | 4.3 | (431.9) | 16.4 | 1.5 | (881.1) | 26.7 | 1.2 | (1,159.6) |
| Inter-segment elimination | (1.9) | (0.2) | N/A | — | — | N/A | (4.1) | (0.2) | N/A |
| Total | <u>772.4</u> | <u>100.0</u> | <u>7.1</u> | <u>1,079.5</u> | <u>100.0</u> | <u>31.5</u> | <u>2,131.6</u> | <u>100.0</u> | <u>44.4</u> |

Notes:

- (1) Compared to our operating margins, our segment margins have included the effect of other income and gains. Our operating margin was 6.0%, 31.1%, 44.1% in 2012, 2013 and 2014, respectively.
- (2) Includes (i) interest income from our own bank deposits; and (ii) investment gains we made as a result of the liquidity management measures conducted by our headquarters. Our "Others" segment experienced significant losses during the Track Record Period primarily due to (i) a 49.7% decrease of segment revenue in 2013 compared to 2012 as a result of significant decrease in interest income as a substantial amount of self-owned assets were used in our margin financing and securities lending business; and (ii) a 109.0% increase in segment expenses from 2013 to 2014, which mainly include staff costs, interest expenses, depreciation and amortization, non-operating expenses and other expenses, primarily due to increases in our staff costs, interest expenses and other expenses in line with our business expansion. See "Financial Information—Segment Results" for more information.

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

| | Year ended December 31, | | |
|---|-------------------------|---------|----------|
| | 2012 | 2013 | 2014 |
| Securities brokerage trading volume (RMB in billions) ⁽¹⁾ | 349.8 | 521.9 | 831.9 |
| Average securities brokerage commission rate ⁽²⁾ | 0.102% | 0.092% | 0.074% |
| Amount of equity securities underwritten as a lead underwriter (RMB in millions) | 937.1 | 908.2 | 4,149.8 |
| Amount of debt securities underwritten as a lead underwriter (RMB in billions) | 3.5 | 4.7 | 8.9 |
| AUM (RMB in millions) | 1,367.8 | 7,305.4 | 16,695.3 |
| Balance of margin loans and securities lent (RMB in millions) | 191.0 | 1,150.4 | 3,800.2 |
| Average investment amount in proprietary trading (RMB in millions) ⁽³⁾ | 1,084.0 | 1,348.6 | 1,357.2 |
| Net revenue from proprietary trading (RMB in millions) ⁽⁴⁾ | 30.7 | 83.9 | 406.6 |
| Average return rate on proprietary trading ⁽⁵⁾ | 2.8% | 6.2% | 30.0% |

Notes:

- (1) Includes brokerage trading volumes of stocks, funds and bonds.
- (2) Average securities brokerage commission rate = commission on the trading of stocks, funds and bonds/trading volume of stocks, funds and bonds.
- (3) Average investment amount = aggregate of annual funds used by our proprietary trading activities/365.
- (4) 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). For purpose of this calculation, net revenue does not include unrealized investment gains.
- (5) Average return rate on proprietary trading = net revenue/average investment amount.

RISK MANAGEMENT AND CAPITAL ADEQUACY

We have established comprehensive risk management and internal control systems that enable us to identify, evaluate and manage credit, concentration, market, liquidity, compliance and operational risks in our business. We have standardized sensitivity analyses 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. The CSRC recognized the effectiveness of our risk

SUMMARY

management and internal control systems and assigned us an “A” regulatory rating in 2014 (the highest regulatory rating given by the CSRC in 2014 was “AA”), which was a significant improvement from the “BBB” and “BB” regulatory ratings we received in 2012 and 2013, respectively. According to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》) (effective from May 14, 2010), each securities company under normal operations starts with a benchmark score of 100, and the CSRC adds to or deducts from the benchmark score by taking into account, *inter alia*, the assessment indicators and standards of their risk management capabilities, market competitiveness and continued compliance. Based on different circumstances, as to one event, regulatory points could be deducted by points within a range between 0.5 and 10 points or added by points within a range between 0.5 and 5 points. Based on these regulatory points, the CSRC classifies securities companies each year into five major classes and 11 categories: A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, with reference to a particular securities company’s total regulatory points in comparison to those of its peer companies. Since the CSRC conducts such assessment annually, our regulatory rating is subject to change in the future. A decrease in our regulatory rating may subject us to a higher ratio for risk capital reserve or a higher ratio for the securities investor protection fund, or may prohibit us from conducting a new business or expand certain existing business. For further information on the regulatory point system and the fluctuations of our regulatory ratings during the Track Record Period, please see “Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control” and “Business—Risk Management.”

We established a dynamic Net Capital monitoring mechanism, which enables the monitoring, early-warning and reporting of various risks, to ensure we comply with statutory Net Capital requirements. As of December 31, 2014, our Net Capital amounted to RMB4,579.8 million. In addition, we need to maintain a minimum amount of Net Capital necessary to engage our securities brokerage, investment banking, asset management and investment, credit transactions and proprietary trading businesses. As of December 31, 2012, 2013 and 2014, we were in compliance with all of our capital adequacy and risk control index requirements. Please refer to “Financial Information—Capital Adequacy and Risk Control Indicators” beginning on page 308 of this prospectus.

INTERNAL CONTROL MEASURES OF OUR PROPRIETARY TRADING BUSINESS

We engage in the trading of various financial products permitted by the CSRC, including stocks, bonds, funds and derivatives. In 2012, 2013 and 2014, segment revenue and other income from our proprietary trading business amounted to RMB49.0 million, RMB160.5 million and RMB462.9 million, respectively, representing 6.3%, 14.9% and 21.7% of our total revenue and other income, respectively. We have applied a prudent and value investment approach when conducting our proprietary trading business and seek to achieve stable returns through the implementation of a variety of trading strategies and policies while vigorously managing risks. To achieve this objective, we have established a five-level risk management governance structure that include the Board, our senior management, the Chief Risk Officer, our compliance and risk control department and our proprietary trading department and its resident compliance and risk management personnel. We have implemented the following internal control measures:

- the Board, subject to the ratification by our Shareholders at a Shareholders’ meeting, determines annually the trading limits and risk limits associated with our investments in equity, debt and derivative securities for the following year based on the total value of the securities held by our proprietary trading department in the current year, calculated on a cost basis. With respect to our investments in certain debt securities, the Board also sets limits on applicable leverage ratio;
- our Investment Decision Committee determines the investment amount in equity, debt and derivative securities in light of the trading limits set by the Board, and adjusts our actual trading activities based on prevailing market conditions and our investment strategies;

SUMMARY

- our finance departments strictly adheres to the trading limits set by the Board when it allocates internal funds to our proprietary trading department;
- we have established a monitoring and reporting system to monitor our trading activities on a daily basis. At the end of each trading day, the resident compliance and risk management personnel notifies our proprietary trading staff of the available trading limits and existing leverage ratio;
- our compliance and risk control department prepares a daily written report containing a summary of our trading activities and the existing status of our aggregate trading limits and leverage ratio to ensure they are within the prescribed limits set by the Board;
- we have established a mechanism under which the Board, subject to the ratification by our Shareholders at a Shareholders' meeting, has the authority to approve any excess over the initial trading limits in the event it is required; and
- we use VaR to manage our trading limits and market risks associated with our proprietary trading business. We have set a daily VaR limit of RMB100.0 million for our investments in equity and debt securities. When the daily VaR approaches RMB80.0 million, our compliance and risk control department will notify our Investment Decision Committee, which will consider whether to temporarily reduce our trading limits and/or adjust the types of securities available for investment based on the prevailing market conditions and our risk exposure.

For further details, please refer to the section headed “Business—Internal Control Measures—Proprietary Trading” of this prospectus.

REGULATORY NON-COMPLIANCE AND INSPECTIONS

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities and self-disciplined organizations in the PRC, including but not limited to the CSRC, the PBOC, SAC and their respective local branches and offices, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, except for the non-compliance incidents as disclosed in “Business—Legal and Regulatory Compliance,” there were no incidents of regulatory non-compliance that led to any administrative penalty or deduction of regulatory points by the CSRC or pursuant to which we or our employees were prosecuted or convicted. In addition, the CSRC, other regulatory agencies and self-disciplined organizations conduct inspections and examinations in respect of our business. These inspections and examinations may reveal certain deficiencies with respect to our business operations, risk management and internal controls. Generally, we submitted rectification reports after the regulatory authorities had completed the inspections and examinations and discovered certain deficiencies. As of the Latest Practicable Date, we have not received any objections from the regulatory authorities to our rectification reports. For details of the examples of non-compliance incidents and regulatory inspections and examinations, please refer to “Business—Legal and Regulatory Compliance” beginning on page 195 of this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$7.68 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$7.10 and HK\$8.25 per H Share), we estimate that we will receive net proceeds of approximately HK\$2,918.0 million from the Global Offering after deducting the underwriting commission and other estimated expenses in connection with the Global Offering. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering. In line with our business strategies, we intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 45.0%, or HK\$1,313.1 million, will be used to further develop our margin financing and securities lending business;

SUMMARY

- Approximately 20.0%, or HK\$583.6 million, will be used to develop our other capital-based intermediary services to meet our client needs in investment, financing and liquidity;
- Approximately 15.0%, or HK\$437.7 million, will be used to expand our proprietary trading business;
- Approximately 10.0%, or HK\$291.8 million, will be used to develop our Internet trading business, invest in Internet trading systems and improve our own Internet trading platform; and
- Approximately 10.0%, or HK\$291.8 million, will be used for working capital and other general corporate purposes.

For details, please refer to “Future Plans and Use of Proceeds” beginning on page 320 of this prospectus.

OFFER STATISTICS

| | <u>Based on an Offer Price of HK\$7.10</u> | <u>Based on an Offer Price of HK\$8.25</u> |
|--|--|--|
| Market capitalization - H Share ⁽¹⁾ | HK\$3,142.7 million | HK\$3,651.8 million |
| Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾ | HK\$4.12 | HK\$4.35 |

Notes:

- (1) The calculation of market capitalization is based on 402,400,000 H Shares expected to be issued by us and 40,240,000 H Shares to be offered by the Selling Shareholders, all of which will be 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 accordance with the Company Law, our Articles of Association and the requirements of the CSRC, we may pay dividends out of our profit tax after we made certain allowances. 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 each year as cash dividends in any fiscal year so long as we have profits after tax and accumulated undistributed profits in that year. However, we may decide not to distribute cash dividends due to a significant investment in a particular year.

In 2012, 2013 and 2014, we distributed cash dividends of RMB45.0 million, RMB30.0 million and RMB60.0 million, respectively, to our Shareholders. At a Shareholders’ meeting on January 5, 2015, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders. On April 10, 2015, we declared a cash dividend of RMB105.0 million, which was paid to our Shareholders in full in June 2015. Please see “Financial Information—Dividend Policy” for further details.

LISTING EXPENSES

We expect to incur approximately RMB137.7 million of listing expenses (assuming an offer price of HK\$7.68 per H Share, which is the mid-point of the stated range of the Offer Price between HK\$7.10 and HK\$8.25 per H Share) until the completion of the Global Offering, of which RMB3.3 million is expected to be charged to our consolidated statements of comprehensive income and RMB134.4 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 2015.

SUMMARY

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. We believe our major risks include, among others, risks associated with (i) general economic and market conditions in the PRC; (ii) our ability to compete effectively in our existing and emerging businesses; and (iii) potential regulatory changes that may affect our operations or the cost of doing business. For further information relating to these and other risks relating to the investment in our H Shares, please see “Risk Factors” beginning on page 28 of this prospectus.

RECENT DEVELOPMENT

Since December 31, 2014, our revenue and profit experienced continuous growth, and our business growth is in line with the past trends and our expectations. To the best of our knowledge, there is no change to the overall economic and market condition of our industry in China that may have a material adverse effect to our business operations and financial position.

The trading volume of our securities brokerage business amounted to RMB1,149,685.3 million for the five months ended May 31, 2015. We had 99,268 new brokerage clients through May 31, 2015. In addition, we obtained the relevant qualifications in January 2015 to engage in options brokerage business and to act as an agent to our customers to carry out options trading. With respect to our investment banking business, Hua Ying Securities had completed three equity private placement transactions, in the first five months of 2015. In addition, as of May 31, 2015, Hua Ying Securities had nine active private placement transactions, one of which had passed review by the CSRC and five transactions were under review by the CSRC. As of the same date, Hua Ying Securities had nine active debt financing transactions, one of which was under review by the CSRC. Furthermore, our total AUM increased by 6.6% to RMB17,789.1 million as of May 31, 2015 from RMB16,695.3 million as of December 31, 2014. Since December 31, 2014 and up to May 31, 2015, our margin financing and securities lending business experienced steady growth while our securities-backed lending and securities repurchase business had a small decline in terms of outstanding balance. In addition, we obtained the qualifications to conduct options investment and market-making businesses in January 2015 and have commenced such business in February 2015.

On January 20, 2015, we completed the issuance of an aggregate principal amount of RMB1.5 billion of subordinated corporate bonds to several financial institutions. Please refer to “Financial Information—Recent Development” for the principal terms governing these bonds. Subsequently, on January 22, 2015 and February 6, 2015, we used a portion of the proceeds from these 2015 subordinated corporate bonds to redeem the outstanding subordinated corporate bonds of RMB650.0 million we issued to Guolian Group in 2011 and the outstanding subordinated corporate bonds of RMB300.0 million issued to an asset management company in 2014. During the first four months of 2015, we issued eight income certificates to certain banks and financial institutions in the PRC in an aggregate amount of RMB1,460.0 million, of which two income certificates with an aggregate amount of RMB300.0 million have matured and were settled as of April 30, 2015. For details of the major terms of the subordinated corporate bonds we issued in 2011 and of the income certificates we issued in 2015, please refer to “—Liquidity and Capital Resources—Indebtedness.”

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed 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, 2014 and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

DEFINITIONS

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

| | |
|---|---|
| “active clients” | clients other than “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 |
| “AMAC” | the Asset Management Association of China (中國證券投資基金業協會) |
| “Application Form(s)” | WHITE, YELLOW and GREEN 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 |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Board” or “Board of Directors” | the board of Directors of our Company |
| “BOCOM International Holdings” | BOCOM International Holdings Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Bank of Communications Co., Ltd. (交通銀行股份有限公司), whose H shares are listed on the Main Board of the Stock Exchange (stock code: 3328) |
| “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” | 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 |

DEFINITIONS

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|---|--|
| “CCASS Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “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 refinancing and securities refinancing services to support the margin financing and securities lending businesses of PRC securities firms |
| “CIRC” | China Insurance Regulatory Commission (中國保險監督管理委員會) |
| “close associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “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, supplemented or otherwise modified from time to time |
| “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 |
| “Company,” “our Company” or “Guolian Securities” | Guolian Securities Co., Ltd. (國聯證券股份有限公司) (formerly known as Wuxi Securities Company* (無錫市證券公司), Wuxi Securities Co., Ltd.* (無錫證券有限責任公司) and Guolian Securities Co., Ltd.* (國聯證券有限責任公司)), a company established in the PRC as an enterprise owned by the whole people (全民所有制企業) on November 19, 1992, converted into a limited liability company on January 8, 1999 and subsequently converted into a joint stock company with limited liability on May 26, 2008 and if the context requires, including its predecessors, subsidiaries, branches offices and securities branches |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the |

DEFINITIONS

| | |
|------------------------------------|--|
| | controlling shareholders of our Company, namely, Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial |
| “core connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “CSDC” | China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司) |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Director(s)” | director(s) of our Company |
| “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 Listing Rules, may trade on or through the Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange |
| “GDP” | gross domestic product |
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “GREEN Application Form(s)” | the application form(s) to be completed by the White Form eIPO 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) |
| “Guolian Capital” | Guolian Capital Co., Ltd.* (國聯通寶資本投資有限責任公司), a limited liability company established in the PRC on January 18, 2010 and a direct wholly-owned subsidiary of our Company as of the Latest Practicable Date. For further details, please see “History and Corporate Structure—Our Subsidiaries—Guolian Capital” in this prospectus |
| “Guolian Environmental” | Wuxi Guolian Environmental Energy Group Co., Ltd.* (無錫國聯環保能源集團有限公司), a limited liability company established in the PRC on February 28, 2000 and a direct |

DEFINITIONS

wholly-owned subsidiary of Guolian Group. Guolian Environmental is one of the promoters of our Company which held 2.000% of the equity interest in our Company as of the Latest Practicable Date, and is one of our Controlling Shareholders. For further details, please see “History and Corporate Structure—Information on Existing Shareholders—Guolian Environmental” in this prospectus

“Guolian Finance”

Guolian Finance Co., Ltd.* (國聯財務有限責任公司), a limited liability company established in the PRC on September 22, 2008 and was owned as to 30.000% by Guolian Group, 20.000% by Guolian Trust, 10.000% by Guolian Textile, 20.000% by Wuxi Huaguang Boiler Co., Ltd.* (無錫華光鍋爐股份有限公司) (an associate of Guolian Group), 10.000% by Wuxi Guolian Material Investment Co., Ltd.* (無錫市國聯物資投資有限公司) (a wholly-owned subsidiary of Guolian Group), and 10.000% by Wuxi Lingshan Cultural Tourism Group Co., Ltd.* (無錫靈山文化旅遊集團有限公司) as of the Latest Practicable Date

“Guolian Futures”

Guolian Futures Co., Ltd.* (國聯期貨有限責任公司), a limited liability company established in the PRC on April 30, 1993, and was owned as to 54.720% by Guolian Group, 39.000% by Zhonghai Trust Co., Ltd.* (中海信託股份有限公司), 4.500% by Hunan Jiang Five Light Group Limited Company* (湖南五江輕化集團有限公司) and 1.780% by Wuxi Guolian Material Investment Co., Ltd.* (無錫市國聯物資投資有限公司) (a wholly-owned subsidiary of Guolian Group) as of the Latest Practicable Date. For further details, please see “History and Corporate Structure—Major Acquisitions and Disposals—Capital Contribution into and Disposal of Guolian Futures” in this prospectus

“Guolian Group”

Wuxi Guolian Development (Group) Co., Ltd.* (無錫市國聯發展(集團)有限公司), a wholly state-owned limited liability company established in the PRC on December 16, 1997. Guolian Group is one of the promoters of our Company which as of the Latest Practicable Date directly held 37.364% of the equity interest in our Company, and indirectly controlled 52.136% of the equity interest in our Company through its subsidiaries (namely, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial) and is one of our Controlling Shareholders. For further details, please see “History and Corporate Structure—Information on Existing Shareholders—Guolian Group” in this prospectus

DEFINITIONS

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|--------------------------|---|
| “Guolian Industrial” | Wuxi Guolian Industrial Investment Group Co., Ltd.* (無錫國聯實業投資集團有限公司), a limited liability company established in the PRC on May 28, 1992 and a direct wholly-owned subsidiary of Guolian Group. Guolian Industrial is one of our Controlling Shareholders. For further details, please see “History and Corporate Structure—Corporate Structure” in this prospectus |
| “Guolian Textile” | Wuxi Guolian Textile Group Co., Ltd.* (無錫國聯紡織集團有限公司), a limited liability company established in the PRC on April 15, 1980 and a direct wholly-owned subsidiary of Guolian Group. Guolian Textile is one of the promoters of our Company which held 5.000% of the equity interest in our Company as of the Latest Practicable Date, and is one of our Controlling Shareholders. For further details, please see “History and Corporate Structure—Information on Existing Shareholders—Guolian Textile” in this prospectus |
| “Guolian Trust” | Guolian Trust Co., Ltd.* (國聯信託股份有限公司), a joint stock company established in the PRC with limited liability on January 13, 1987 and a subsidiary of Guolian Group. Guolian Trust is one of the promoters of our Company which held 26.801% of the equity interest in our Company as of the Latest Practicable Date, and is one of our Controlling Shareholders. For further details, please see “History and Corporate Structure—Information on Existing Shareholders—Guolian Trust” in this prospectus |
| “H Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “H Shares” | 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 listed on the Stock Exchange |
| “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 Offer Shares” | the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering |

DEFINITIONS

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| “Hong Kong Public Offering” | the initial offering by our Company of 44,264,000 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 the 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—The Hong Kong Public Offering” in this prospectus |
| “Hong Kong Underwriters” | the underwriters listed in “Underwriting—Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offering |
| “Hong Kong Underwriting Agreement” | the underwriting agreement dated June 22, 2015, 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 |
| “Hua Ying Securities” | Hua Ying Securities Co., Ltd.* (華英證券有限責任公司), a Sino-foreign joint venture company established in the PRC with limited liability on April 20, 2011, and a subsidiary owned as to 66.700% by our Company as of the Latest Practicable Date. For further details, please see “History and Corporate Structure—Our Subsidiaries—Hua Ying Securities” 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), who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of our Company (as defined in the Listing Rules) |
| “International Offering” | the offer for subscription and sale of initially 358,136,000 H Shares by our Company and 40,240,000 Sale Shares by the Selling Shareholders to institutional, professional, corporate and other investors, subject to adjustment, as further described in “Structure of the Global Offering—the International Offering” in this prospectus |

DEFINITIONS

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| “International Offer Shares” | the H Shares offered pursuant to the International Offering |
| “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 the Price Determination Date, by, among others, the International Underwriters, our Company and the Selling Shareholders, as further described in the paragraph headed “Underwriting—the International Offering” in this prospectus |
| “Jiangsu AIC” | Jiangsu Administration for Industry and Commerce* (江蘇省工商行政管理局) |
| “Jingtian & Gongcheng” | Beijing Jingtian & Gongcheng Law Firm, the PRC legal advisor of our Company |
| “Joint Bookrunners” | BOCOM International Securities Limited, ABCI Capital Limited, Qilu International Capital Limited, CCB International Capital Limited and CMB International Capital Limited |
| “Joint Global Coordinators” | BOCOM International Securities Limited and ABCI Capital Limited |
| “Joint Lead Managers” | BOCOM International Securities Limited and ABCI Securities Company Limited |
| “Joint Sponsors” | BOCOM International (Asia) Limited, ABCI Capital Limited and Qilu International Capital Limited |
| “Latest Practicable Date” | June 14, 2015, being the Latest Practicable Date for the purpose of ascertaining certain information contained in this prospectus prior to its publication |
| “Lingxiang Fund” | Wuxi Guolian Lingxiang SME Venture Capital Fund (Limited Partnership)* (無錫國聯領翔中小企業成長投資中心(有限合夥)), a limited partnership established in the PRC on December 31, 2013 with Guolian Capital as its general partner |
| “Listing” | listing of the H Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |

DEFINITIONS

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| “Listing Date” | the date, expected to be on or about July 6, 2015, on which our H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time |
| “Macau” | the Macau Special Administrative Region of the PRC |
| “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” | Ministry of Finance of the PRC (中華人民共和國財政部) |
| “MOFCOM” | Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “NDRC” | National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會) |
| “NEEQ” | National Equities Exchange and Quotations (全國中小企業股份轉讓系統) |
| “Non-competition Agreement” | the non-competition agreement dated June 15, 2015 entered into among our Company and Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial, details of which are set out in “Relationship with our Controlling Shareholders—Non-competition Agreement with our Controlling Shareholders” in this prospectus |
| “NPC” | National People’s Congress of the PRC (中華人民共和國全國人民代表大會) |
| “NSSF” | 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 0.0027% and 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” in this prospectus |

DEFINITIONS

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| “Offer Shares” | the Hong Kong Offer Shares and the International Offer Shares |
| “PBOC” | People’s Bank of China (中國人民銀行), the central bank of the PRC |
| “PRC GAAP” | generally accepted accounting principles of PRC |
| “prefecture-level city” | an administrative division of the PRC that ranks below a province but above a county in the PRC administrative structure. Unless otherwise stated in this prospectus, all prefecture-level cities in the PRC exclude provincial capitals |
| “Price Determination Date” | the date, expected to be on or around June 26, 2015 (Hong Kong time), on which the Offer Price is determined, or such later time as our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may agree, but in any event not later than July 2, 2015 |
| “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 |
| “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) |
| “SAJS” | the Securities Industry Association of Jiangsu Province (江蘇省證券業協會) |
| “Sale Shares” | the 40,240,000 H Shares to be sold by the Selling Shareholders for the benefit of the NSSF pursuant to the relevant PRC laws relating to the conversion/reduction of state-owned shares. For further details, please see “Share Capital—Transfer and Sale of State-owned Shares” of this prospectus. The Selling Shareholders will convert an equal number of Domestic Shares held by them to be offered for sale as the Sale Shares. References to “Sale Shares” include, where the context requires, the Domestic Shares from which the Sale Shares are converted |

DEFINITIONS

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| “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) |
| “SASAC Wuxi” | State-owned Assets Supervision and Administration Commission of Wuxi Municipal Government (無錫市人民政府國有資產監督管理委員會) |
| “SAT” | State Administration of Taxation of the PRC (國家稅務總局) |
| “Securities and Futures Ordinance” or “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Securities Law” | the Securities Law of the PRC (《中華人民共和國證券法》), as amended, supplemented or otherwise modified from time to time |
| “Selling Shareholders” | the state-owned Shareholders, who, collectively, are required to convert the Domestic Shares they held to H Shares and sold for the benefit of the NSSF pursuant to the relevant PRC laws relating to the conversion/reduction of state-owned shares, as further described in “Information about this Prospectus and the Global Offering—Selling Shareholders” of this prospectus |
| “SFC” | Securities and Futures Commission of Hong Kong |
| “Shanghai-Hong Kong Stock Connect” | a pilot program that links the stock markets in Shanghai and Hong Kong under which investors in Hong Kong and the PRC can trade and settle shares listed on the other market via exchange and clearing house in their home market |
| “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) |
| “Shenzhen Stock Exchange” | the Shenzhen Stock Exchange (深圳證券交易所) |
| “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 |
| “sq.m.” | square meters |

DEFINITIONS

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| “State Council” | State Council of the PRC (中華人民共和國國務院) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “subsidiary(ies)” | has the meaning ascribed to it under the Listing Rules |
| “Substantial Shareholder” | has the meaning ascribed to it under the Listing Rules |
| “Supervisor(s)” | member(s) of the Supervisory Committee of our Company |
| “Supervisory Committee” | the supervisory committee of our Company |
| “Track Record Period” | the three years ended December 31, 2012, 2013 and 2014 |
| “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 at www.eipo.com.hk |
| “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 joint stock limited liability company established in the PRC on April 4, 2005 and an integrated service provider of financial data, information and software, being an Independent Third Party |
| “Wuxi” | includes the City of Wuxi, which comprises nine administrative regions, namely New District* (新區), Chong’an District* (崇安區), Nanchang District* (南長區), Beitang District* (北塘區), Huishan District* (惠山區), Xishan District* (錫山區) and Binhu District* (濱湖區), and two county-level cities, Jiangyin City* (江陰市) and Yixing City* (宜興市) |

DEFINITIONS

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| “Wuxi AIC” | Jiangsu Wuxi Administration for Industry and Commerce* (江蘇省無錫市工商行政管理局) |
| “Wuxi Electric” | Wuxi Municipal Electric Power Company* (無錫市地方電力公司), an enterprise owned by the whole people (全民所有制企業) established in the PRC on March 11, 1986 and an indirect wholly-owned subsidiary of Guolian Group. Wuxi Electric is one of the promoters of our Company which held 18.335% of the equity interest in our Company as of the Latest Practicable Date, and is one of our Controlling Shareholders. For further details, please see “History and Corporate Structure—Information on Existing Shareholders—Wuxi Electric” in this prospectus |
| “Xiyu Fund” | Wuxi Xiyu Venture Capital Fund (Limited Partnership)* (無錫錫域創業投資中心(有限合夥)), a limited partnership established in the PRC on March 1, 2011 with Guolian Capital as one of its limited partners |
| “Zhonghai Fund” | Zhonghai Fund Management Co., Ltd.* (中海基金管理有限公司), a limited liability company established in the PRC on March 18, 2004, in which we owned an equity interest of 33.409% as of the Latest Practicable Date. |
| “%” | per cent |

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.

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

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.

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| “A share(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 brokerage commission rate” | equals sum of the commissions from our trading of stocks, funds and bonds on behalf of clients and the fee income from the sales of financial products and futures IB business, divided by our brokerage trading volume for stocks, funds and bonds |
| “CAGR” | compound annual growth rate |
| “ChiNext Board” | the growth enterprise board launched by the Shenzhen Stock Exchange (深圳證券交易所創業板) |
| “collective asset management scheme(s)” | 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 Co., Ltd. (中證指數有限公司) |
| “ETF” | exchange-traded fund |
| “futures IB business” | the business activities in which securities firms, as commissioned by futures companies, introduce clients to futures companies for a fee |
| “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 |
| “LOF” | listed open-ended fund |

GLOSSARY OF TECHNICAL TERMS

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| “M&A” | mergers and acquisitions |
| “margin and securities refinancing” | a business in which securities firms can act as intermediaries to borrow funds or securities from the China Securities Finance and other authorized financial institutions, and lend such funds or securities to their customers |
| “margin financing and securities lending” | a type of activity in which investors provide securities companies which are qualified to conduct margin financing and securities lending, with collaterals on the funds borrowed by them to purchase securities (margin financing), or on the securities borrowed by them, and then resell such securities (securities lending) |
| “Net Capital” | equals net assets minus risk-adjusted financial assets minus other risk-adjusted assets and contingent liability plus/minus capital from other adjustments recognized or approved by the CSRC |
| “non-tradable securities” | securities of PRC-listed companies that are not allowed to be sold and transferred within a lock-up period |
| “OTC” | over-the-counter |
| “O2O” | Online-to-offline, a marketing strategy that connects online sites and offline shops |
| “PBOC benchmark interest rate” | the benchmark demand deposit and loan rate set by the PBOC on financial institutions’ Renminbi deposits |
| “Proprietary trading” | a type of activity in which securities firms, as approved by the CSRC to conduct proprietary trading business, use their own funds or legally raised funds to trade other issued marketable securities in accordance with the laws or recognized by CSRC through securities accounts under its own name, in order to seek gains |
| “P2P” | Peer-to-peer, a computing or networking distributed application architecture that partitions tasks or workloads among peers |
| “QDII” | Qualified Domestic Institutional Investor (合格境內機構投資者) |
| “QFII” | Qualified Foreign Institutional Investor (合格境外機構投資者) |
| “quantitative trading” | a new application of Internet Finance to realize automatic transactions or assist transaction for our customers through |

GLOSSARY OF TECHNICAL TERMS

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| | establishing data model, analyze trading opportunities and generate trading decisions |
| “risk exposure” | securities exposure (net position) arising from the difference between the long position and short position for certain type of securities held by securities firms in certain period of time |
| “RQFII” | Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into the PRC capital markets |
| “securities-backed lending” | a transaction in which a securities firm provides financing to qualified customers who pledge their securities as collateral |
| “securities repurchase” | a transaction pursuant to the securities repurchase agreement in which a qualified client sells its securities to a securities firm and agrees to repurchase such securities at a fixed price on a future date |
| “securitization ratio” | total market capitalization of domestically-listed companies divided by nominal GDP |
| “SME” | small and medium-sized enterprise |
| “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 |
| “specialized asset management scheme(s)” | specific asset management contract(s) entered into between a securities firm and clients, based on the special needs and the underlying assets, pursuant to which, the securities firm sets the specific investment objectives and provides asset management services to the client through special accounts |
| “sponsor representative” | a professional representative qualified in China to sponsor and execute the offering and listing of securities pursuant to the Measures for the Administrative 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 |

GLOSSARY OF TECHNICAL TERMS

“targeted asset management
scheme(s)”

a targeted asset management contract entered into by a securities firm with a single client pursuant to which the securities firm provides asset management services to the client through accounts under the client’s name

“VaR”

value at risk

FORWARD-LOOKING STATEMENTS

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.

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.

RISK FACTORS

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 all of our operations are conducted in the PRC, which is governed by a legal and regulatory environment that may differ significantly from that of other jurisdictions. For more information concerning the PRC and certain related matters discussed below, please 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

Fluctuations in the general economic and market conditions of PRC could materially and adversely affect our business.

Because all of our revenue is derived from the PRC securities markets, our business is highly dependent on the economic and market conditions in China. Similar to other PRC securities firms, our business is directly affected by the inherent risks associated with the securities markets, such as market volatility, overall investment sentiments, fluctuations in market capitalization and trading volumes, the supply of liquidity and perceived credit worthiness of the securities industry in the marketplace. Our business is also subject to changes in general economic conditions and government policies, such as monetary policies, fiscal policies, foreign exchange policies and currency fluctuations, cost of funding and the volatility of interest rates, taxation policies and other macroeconomic policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, as well as inflation and availability of short-term and long-term funding sources. In 2012, the PRC securities industry and our financial condition and results of operations were adversely affected by the tightening of monetary policies and high inflation in the PRC, as well as the volatile PRC A share market. For example, the daily average trading amount in the PRC A share market decreased by 25.1% to RMB128.6 billion in 2012 from RMB171.6 billion in 2011. Unfavorable economic and financial conditions globally, such as the financial instability in the United States and the European sovereign debt crisis, have also had material impact on the market conditions in China, which in turn, affected our results of operations and financial condition.

While the PRC government has implemented steady monetary policies in 2013 and 2014, and the stock trading amount in the PRC A share market increased by 48.4% from RMB31,237.1 billion in 2012 to RMB46,352.9 billion in 2013, and then by 59.0% to RMB73,708.0 billion in 2014, representing a CAGR of 53.7%, the PRC GDP growth has slowed down in those years. We cannot assure you that the PRC securities market performance will continue to remain at the same level in 2015 or beyond as it is subject to fluctuations caused by various factors beyond our control, including volatility of stock prices and trading volumes, the supply of liquidity, the PRC government’s policies and the general economic and market conditions in China.

Unfavorable general economic and market conditions in China may also result in declines in trading turnovers by our clients and in financing and investment activities in the market, which could adversely affect commission and fee income from our securities brokerage business and underwriting

RISK FACTORS

commission and sponsors fees from our investment banking business. Any prolonged downturn could also increase the risk of defaults in the margin loans that we provide to our clients. Furthermore, adverse general economic, financial conditions and securities market volatility in China could negatively affect the value and returns on our financial assets and investments, which could lead to a reduction in value of our trading and investment positions, adversely affecting our proprietary trading business, as well as limiting our liquidity and reducing our opportunities to exit and realize value from our investments. Adverse economic conditions could also limit our ability to effectively deploy capital as well as our ability to raise new funds or increase the size of our AUM. In times of adverse economic and market conditions, we may also be faced with an influx of client redemptions in our asset management portfolio, which could adversely impact our asset management business.

We face intense competition in existing and emerging businesses, which could materially and adversely affect our business if we are unable to compete effectively.

We face intense competition against a large and diverse group of competitors across our business lines. We compete with PRC securities firms, as well as other financial institutions such as commercial banks, insurances companies, fund companies and trust companies, in various specific business lines in the PRC. These institutions are expanding their services into the traditional businesses of securities firms through continuous product and service innovations and thus, competing with securities firms in a variety of business areas. Commercial banks, in particular, present a greater challenge to securities firms' businesses in areas such as bond underwriting, financial advisory and sales of wealth management products, by leveraging their extensive branch network, broad client base and large capital base. Meanwhile, the gradual relaxation of PRC securities regulations and the tendency towards mixed operations in the PRC 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. Some of our competitors may have certain competitive advantages over us, such as wider geographic coverage, greater financial resources, stronger brand recognition, broader product and service offerings and more advanced and secure 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. The relaxation of PRC securities regulations could also induce foreign financial institutions to enter into the PRC securities market, which are currently subject to PRC regulatory limitations and restrictions on their business activities. Foreign financial institutions could possess a number of competitive advantages over us, including greater financial resources, more robust or specialized capacities, larger total assets and a larger and more diverse client base. In addition, innovative products and services may emerge in the PRC securities market as the PRC securities industry is gradually evolving and we cannot guarantee we will be able to timely provide such innovative products and services. If we fail to maintain our competitiveness in this business environment, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We also face intense price competition in our business lines. We may continue to experience pricing pressures in the future as some of our competitors seek to increase their market shares by reducing prices. There has been considerable pressure on commission rates in some of our businesses in recent years. In particular, our securities brokerage commission rate continued to decrease in recent years. Electronic execution of trades through the Internet and other alternative trading systems have been broadly accepted by brokerage clients and has increased the pressure on brokerage commission rates. For the years ended December 31, 2012, 2013 and 2014, our average securities brokerage commission rate was 0.102%, 0.092% and 0.074%, respectively. In addition, underwriting

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commission, financial advisory fees and asset management fees have also been subject to pricing pressure. We believe that we will continue to face pressure on commission rates and other areas if some of our competitors decide to further lower their prices in order to increase their market shares. Please see “—We generate a significant portion of our revenue from our securities brokerage business. If we fail to sustain our brokerage commissions and fees, our results of operations and financial condition could be materially and adversely affected” and “—Our investment banking business is subject to various risks in the underwriting and sponsorship of securities and we cannot assure you that our income from underwriting commissions and sponsors fees can be sustained.”

We generate a significant portion of our revenue from our securities brokerage business. If we fail to sustain our brokerage commissions and fees, our results of operations and financial condition could be materially and adversely affected.

Revenue from our securities brokerage business has been the largest component of our total revenue and other income during the Track Record Period. For the years ended December 31, 2012, 2013 and 2014, revenue and other income from our securities brokerage business amounted to RMB501.2 million, RMB678.0 million and RMB856.4 million, respectively, representing 64.9%, 62.8% and 40.2% of our total revenue and other income, respectively. While we continue to diversify and grow our other business lines, our securities brokerage business is expected to remain a major source of our revenue. Since we generate a significant portion of our revenue from our securities brokerage business, any decline or slowdown in our securities brokerage business could have a material adverse effect on our total revenue and other income.

Revenue from our securities brokerage business consists primarily of commissions and fees that we charge our clients for their trading of securities. Accordingly, revenue from our securities brokerage business depends significantly on the trading volume, which is subject to various factors, including general economic conditions, macroeconomic 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 gradually 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 securities brokerage business.

According to the CSRC rules, securities firms’ securities brokerage commission rates can change within a range between an upper limit equivalent to 0.3% of each transaction amount and a lower limit equivalent to the cost of each transaction, which is the sum of the collected securities trading supervision fees and stock exchange commissions, among others. In 2012, 2013 and 2014, our average securities brokerage commission rate was 0.102%, 0.092% and 0.074%, respectively. The increasing competition in the PRC securities industry as well as the introduction and popularity of online trading systems may lead to the continuing decrease in our brokerage commission, which will adversely affect our brokerage business. As a result, we cannot assure you that our brokerage commission and fee income from our securities brokerage business can be sustained at current levels.

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

We conduct our investment banking business through our majority-owned subsidiary, Hua Ying Securities (other than our OTC market business, which we conduct directly). In 2012, 2013 and 2014, segment revenue and other income from our investment banking business amounted to RMB165.4 million, RMB144.1 million and RMB363.7 million, respectively, representing approximately 21.4%, 13.3% and 17.1% of our total revenue and other income, respectively.

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 currently subject to merit-based reviews and approvals conducted by various regulatory authorities. While PRC regulatory authorities have initiated steps to transit from the existing approval-based system to a registration-based system, the timing and effectiveness of such transition are not yet predictable. 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. By 2013, equity financing through IPOs had been suspended by the CSRC for over one year. As a result, during 2012 and 2013, we did not complete any IPO underwriting and sponsorship projects. 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 or underwrite 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 cause delays to, or the termination of, securities offerings underwritten or 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, mainly in terms of brand recognition, pricing, marketing and services. Severe competition may result in less underwriting commission and sponsors fees or a lower market share.

Our investment banking business is also subject to certain risks that are related to the retention of our experienced 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 higher than normal 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 are engaged in the offerings of 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 obligations in connection with each project we sponsor. Failure to satisfy these obligations 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. We usually receive payment of underwriting commissions and sponsors fees only after we successfully complete a transaction. If a project is not completed as scheduled or at all for any reason, we may not receive such fees for our services in a timely manner, or at all, which could materially and adversely affect our results of operations. Intensifying price

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competition in the domestic investment banking business may force us to charge a lower underwriting commission and/or sponsors fee rate to stay competitive. We cannot assure you that our underwriting commission and sponsors fee can be sustained at current levels. A reduction in underwriting commission and sponsors' fees could adversely affect our business, financial condition and results of operations.

Our asset management fees could decline if the investments we make or manage perform below our expectation or if there is a significant decline in the size of our AUM or in the market value of our investments in our self-developed asset management products.

We receive asset management fees based on the size of each asset management plan under our management. In addition, we may earn pre-agreed performance fees for certain collective asset management schemes and targeted asset management schemes. Investment performance affects our AUM and is one of the most important factors in retaining our clients 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 them or require us to make provisions for the decrease in the value of our investments. Market volatility, adverse economic conditions or the failure to outperform our competitors or the market may reduce the size of our AUM or affect the performance of the assets we manage. As of December 31, 2012, 2013 and 2014, our total AUM was RMB1,367.8 million, RMB7,305.4 million and RMB16,695.3 million, respectively. Poor investment performance could adversely affect our revenue and growth because:

- existing clients may withdraw funds from our asset management products in favor of better performing products provided by our competitors, which would result in a decrease in our management fees;
- 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.

As a result of the foregoing, our management fee and performance fee fluctuated significantly during the Track Record Period, which ranged from RMB7.2 million in 2012 to RMB47.0 million in 2014. In addition, our asset management fees or market share may decrease due to increased competition from insurance companies, fund companies, trust companies, commercial banks and other competitors. We are still in the process of developing and growing our asset management business. If we fail to increase the size of 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. As the scope of our asset management business depends on the PRC laws, rules and regulations, including, but not limited to, 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》) (effective from October 18, 2012), and the Implementation Rules of the Collective Asset Management Business of Securities Companies (《證券公司集合資產管理業務實施細則》) (effective from June 26, 2013), we may undertake targeted asset management businesses for individual clients, collective asset management businesses for multiple clients and specialized asset management businesses for clients with specific purposes. However, we cannot assure you that such laws, rules or regulations will not change in the

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future that may terminate or alter any or all of the products and services we offer under our asset management business. In the event any such change occurs, our business, results of operations, financial condition and prospects may be materially and adversely affected.

Furthermore, we invest our own funds in subordinated tranches of certain self-developed collective asset management schemes. As of December 31, 2014, we invested an aggregate RMB435.2 million in 23 such schemes (including funds invested by Guolian Capital in nine such schemes). Any significant market volatility will impact the market value of our investment portfolio, which could materially and adversely impact our results of operation and financial condition. During the Track Record Period, we consolidated certain self-developed collective asset management schemes in which we invested our own funds into our financial statements as structured entities and offered credit enhancement to the holders of the lower risk units pursuant to which we agreed to provide compensation to such holders to the extent that if the unit net asset value reaches below a certain threshold, we are responsible for compensating the potential client losses up to the fair value of our own contributed funds. As of December 31, 2014, we faced possible maximum compensation amount of RMB370.1 million. While we have made a provision for these potential losses from investments in the relevant self-developed collective asset management schemes, which was recognized for the amount of shortage against the expected return of the lower risk units in our consolidated financial statements, and our Directors are of the view that such provision was adequate, as the assessment was conducted for each individual investment based on the fair value (net asset value) of different unit classes of the relevant self-developed collective asset management schemes, we cannot guarantee that we will not be required to pay a higher amount of compensation. Please see “Financial Information—Segment Results—Asset Management and Investment” and note 41 of the Accountant’s Report in Appendix I to this prospectus for more information. In the event we are required to pay a significant amount of compensation to the lower risk unit holders of our consolidated self-developed collective asset management schemes, our business, results of operations and financial condition could be materially and adversely affected.

We may suffer significant losses from our credit transactions and other businesses due to our credit exposures.

Some of our businesses are subject to risks 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. Any material non-payment or non-performance by a client or counterparty could adversely affect our financial position, results of operations and cash flows.

Our credit transactions business has grown rapidly during the Track Record Period. Its segment revenue and other income increased from RMB4.2 million in 2012 to RMB204.4 million in 2014. We may enforce mandatory liquidation for clients who are unable to settle their obligations as scheduled, or whose collateral ratios upon day-end clearing are lower than the collateral 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 agreed-upon period. We conduct automatic valuations for clients’ account balance on each trading day, and, in the event of 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 clients to provide short-term financing to them through securities-backed lending and securities repurchase under which we will be subject to the credit risk.

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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 issuers' 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 effective. Please see "—Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not be sufficient in protecting us against various risks inherent in our business." 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 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.

In addition to our self-developed asset management products, we also sell, on a commission basis, financial products developed by third-party financial institutions in China, such as trust companies and fund companies, through our branch network. If these third-party financial institutions default on their financial products that are sold by us 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 a material adverse effect on our reputation and our business.

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

We conduct our direct investment business through our wholly-owned subsidiary, Guolian Capital, which generally involves direct equity investments and investments in, and management of, several equity investment funds. We make direct equity investment and earn capital gains by exiting from these investments through share transfers or IPOs. To make a sound investment decision, we need to carefully identify and select a target company based on its business, operations, cash flow projections, business prospects and the industry in which it operates. In general, the selection process involves detailed due diligence and a systematic analysis and forecast of the target company's profitability and sustainability. However, we may make unsound investment decision due to our failure to identify problematic issues arising in the course of our due diligence, which could lead us to overvalue the target company and prevent us from making expected returns from such investment. The risks we face include the following:

- our portfolio companies may take longer time than expected to mature to a stage suitable for IPOs or other means of investment exit. 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 in recent years, we may be forced to dispose of 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; and
- if the company within our investment portfolio cannot achieve IPO or does not reach the profitability we anticipate, our ability to exit from such investments in an open market could be severely hampered; and such company could suffer from business difficulties, have poor financial performance or even become insolvent before we exit.

If any of the foregoing occurs, our business, financial condition and results of operations could be materially and adversely affected.

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

We trade primarily 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 are also engaged in derivative transactions involving stock index futures in order to reduce the impact of price volatility on our 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 investment portfolio, and the derivatives we use may not be as effective as we expect. Although there was significant volatility in the PRC securities markets during the Track Record Period, our investment returns have not experienced substantial loss. In 2012, 2013 and 2014, segment revenue and other income from our proprietary trading business amounted to RMB49.0 million, RMB160.5 million and RMB462.9 million, respectively, representing approximately 6.3%, 14.9% and 21.7% of our total revenue and other income, respectively.

The performance of our proprietary trading business relies on our sound 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 adjust 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 procedures fail 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. Furthermore, the issuers of two of the private placement bonds in which we invested an aggregate amount of approximately RMB14.9 million defaulted on the respective maturity date, and we were unable to redeem our investments. We cannot assure that some financial assets we invested would not experience issuer default. In the event of default by the issuer of such financial assets, our business, financial position and operating result could be adversely affected. We have initiated actions to recover such investments through arbitration against the defaulted issuers. As of the Latest Practicable Date, one arbitration case was resolved pursuant to which we were eligible for a compensation of RMB7.1 million plus interests while another case was pending arbitration ruling. We cannot predict that we will receive favorable outcome for either or both cases. Please see “Business—Our Business—Proprietary Trading” of this prospectus for more details.

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 the management determines that such decline in value is not temporary. This evaluation to recognize impairment is a matter of judgment, which includes the assessment of several factors. See “Financial Information—Significant Accounting Policies and Estimates” for more information. If we recognize impairment losses, our results of operations will be materially and adversely affected.

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Our profitability could fluctuate significantly depending on the amount of net investment gains we generate.

Our investment gains mainly consist of (i) net gains from available-for-sale financial assets; (ii) net gains from financial assets at fair value through profit or loss; (iii) net losses from financial liabilities at fair value through profit or loss; and (iv) net gains from derivatives. During the Track Record Period, we generated net investment gains primarily from our investment banking, proprietary trading and asset management businesses. For the years ended December 31, 2012, 2013 and 2014, we had net investment gains of RMB98.5 million, RMB155.2 million and RMB665.9 million, respectively. For the same periods, we recorded profit for the year of RMB92.1 million, RMB272.8 million and RMB730.4 million, respectively, and profit for the year excluding profit contribution from net investment gains of RMB18.2 million, RMB156.4 million and RMB231.0 million. Our net investment gains increased during the Track Record Period primarily due to (i) improving conditions of the PRC stock and bond markets; (ii) higher returns on our investments in stocks and funds; and (iii) increases in the dividend and interest income we received from our investments in stocks, investment funds and debt securities. Accordingly, our profitability during the Track Record Period fluctuated substantially depending on the amount of net investment gains we generated from our various business segments. In the event we experience adverse market conditions, or we make poor investment decisions that lead to losses from our investments in stocks and funds, or the value of our investments in stocks, investment funds and debt securities decreases due to market volatility or other conditions beyond our control, which results in decreased amount of dividend or interest income we receive, our business, financial condition, results of operations and profitability could be materially and adversely affected.

We face the risks of concentration of customer and business in Wuxi and Jiangsu province.

We focus our business in Wuxi and Jiangsu province. Many of our customers in each of our principal business lines are individuals or institutions who open accounts at our securities branches in Jiangsu province. For example, as of December 31, 2014, excluding those customers who opened their accounts online through our Internet trading services platform, approximately 87.6% of our securities brokerage customers opened their accounts at our securities branches in Jiangsu province, and 69.1% of our securities branches are located in the province. However, there is no assurance that we can continue to grow our customer base or expand our presence in Wuxi and Jiangsu province.

We have strategically expanded our business across other regions in China through various approaches, including expanding securities branches and enhancing our Internet trading services platform. However, subject to our available capital and otherwise, we may face difficulties in our ability to further expand our securities branches and operations outside Wuxi and Jiangsu province. A significant economic downturn or material adverse changes in the economic environment or any severe natural disasters or catastrophic events in Wuxi and Jiangsu province could materially and adversely affect our business, financial condition and results of operations.

If we cannot successfully maintain and expand our client base and branch network, our securities brokerage and assets management businesses could be materially and adversely affected.

The securities brokerage business is highly competitive and we have to maintain our client base and attract new clients in order to maintain or grow our market share. As of December 31, 2014, we had a large client base of approximately 586,000 clients, including over 584,500 individuals and

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approximately 1,500 institutional clients. However, there is no assurance that we will be able to continue to maintain or expand our client base.

We serve clients of our securities brokerage business and manage client relationships primarily through our branches. At the same time, we also sell our self-developed assets management products through our branches. As of December 31, 2014, we had 55 securities branches, of which 26 and 38 are located in Wuxi and Jiangsu province, respectively. According to Wind Info, we have the largest number of branches in Wuxi among all PRC securities firms with branches there. We have provided high-quality services to our existing clients and developed new clients through our financial advisors. However, there is no assurance that we will be successful in further expanding our branch network or expanding our customer base due to regulatory changes or other unforeseeable reasons. In late 2012, SAC issued the Guidance on Information Technology of Branches of Securities Companies (《證券公司證券營業部信息技術指引》) and in March 2013, the CSRC issued the Supervisory Provisions on Branches of Securities Companies (《證券公司分支機構監管規定》), which allowed the securities companies in the PRC to expand their branch network through establishing more low-cost “light branches” that are not equipped with on-site IT systems and do not provide on-site trading services. Based on the above mentioned regulations, the PRC securities firms may establish more new branches, which may further increase the competition in the securities brokerage business in the PRC and increase pricing competition in the securities brokerage commission rate. In addition, as more PRC securities firms began to develop Internet trading business to break the physical barriers of branches and attract new customers, we expect competition in the securities brokerage business as well as the pricing pressure on securities brokerage commission rate to intensify in the foreseeable future.

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 guarantee that we will be successful in doing so. If we are unable to address the needs of our clients by maintaining high-quality client service, continuing to develop new products, 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. 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.

We face additional risks as we expand our product and service offerings.

We are committed to providing new products and services to our clients in order to strengthen our market position in the PRC securities industry. We have recently expanded new business to include, among others, margin financing and securities lending, securities repurchase and securities-backed lending businesses. We will continue to expand our product and service offerings as permitted by the PRC regulatory authorities (without giving assurance that we will be able to obtain all relevant permissions), transact with new clients not in our traditional client base and enter into new markets. These new businesses may have different operational parameters and risk profiles from our more established existing businesses, and we may not have sufficient operating experience to effectively manage them and the corresponding risks using our available risk management tools. 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 still be subject to risk exposure if borrowers default on loan repayments or if the value of the collateral for the loans is insufficient to cover securities financing due to significant market volatility.

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These new businesses expose us to additional and potential challenging risks, including, but not limited to:

- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and clients, or may have legal disputes with clients due to deficiencies in our new products;
- we may be subject to greater regulatory scrutiny, increased credit risks, market risks, compliance risks and operational risks;
- we may suffer from reputational concerns arising from dealing with less sophisticated counterparties and clients;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- we may be unable to hire additional 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 be unable to make accurate judgment on market conditions, including the potential loss, of our new business, due to insufficient historical data;
- we may be unable to obtain sufficient financing from internal and external sources to support our business expansion;
- we may be unable to completely identify or adequately evaluate the risks of our new businesses, or 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.

In addition, as part of our strategy to grow our Internet trading business, we intend to continue to enhance our Internet trading services platform to extend our customer reach and source more customers online to lower our operating costs. As other PRC securities firms are also actively developing this business, our platform may not be able to remain competitive. Our competitors may have more diverse product and service offerings, lower pricing, greater brand recognition and resources and better online experience and service capabilities. The development of this business may increase our IT and data privacy risks. The maintenance and upgrade of our Internet trading services platform and our efforts to market our products and services via this platform require substantial capital and we may be unable to achieve a more expanded customer base cost-efficiently as we anticipated.

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

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

We have established an internal risk management framework and relevant procedures to manage our risk exposures, which primarily include market risk, credit risk, concentration risk, liquidity risk, compliance risk and operational risk. Our risk management policies, procedures and internal control measures may not be adequate 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 exposures, which could be significantly greater than those indicated by our historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up-to-date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience data on which we rely for our risk management methods may become quickly outdated as the 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 applicable rules and regulations.

Management of operational and compliance 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 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 exposures and actual losses as a result of failures of our risk management policies, procedures and internal controls. The risk mitigation strategies and techniques that we adopt may not be 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 network and the expansion of our business and products, our business operations and financial condition could be materially and adversely affected.

Successful implementation of our risk management and internal control also depends on our employees. Due to the significant size of our operations and our large number of securities branches, we cannot assure you that such implementation will not involve human errors or mistakes, which may have a material adverse effect on our business, financial condition and results of operations.

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 investments in fixed-income securities. We earn interest income from deposits with banks, margin financing and securities lending as well as securities-backed lending and securities repurchase. Interest income from these sources is directly 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 on behalf of our clients, our short-term borrowings and repurchase transactions. These interest expenses are directly linked to the prevailing market interest rates. During

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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. Therefore, 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 are subject to capital requirements, including the Net Capital requirement, which may restrict our business activities.

We are subject to capital requirements that may restrict our business activities. According to the CSRC's requirements, the ratio between our Net Capital and net assets cannot fall below 40%, the ratio between our Net Capital and total liabilities cannot fall below 8% and the ratio between our net assets and total liabilities cannot fall below 20%. In addition, according to the CSRC's requirement, the registered capital of our direct investment subsidiary cannot exceed 15% of our Net Capital. 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.

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

Maintaining adequate liquidity is of vital importance to our business operations as we continue to expand our margin financing and securities lending, securities-backed lending, proprietary trading and other business activities with substantial cash requirements. We currently meet our liquidity needs primarily through cash generated from operating activities, borrowings from China Securities Finance and net proceeds from the issuances of our subordinated corporate bonds. Our liquidity may be impaired by an inability to access the debt and equity markets, an inability to sell assets at market prices, or at all, or unforeseen outflows of cash or decrease in the value of 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, 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.

Factors that may adversely affect our liquidity position include a significant increase in our margin financing activities, our inability to timely refinance our subordinated corporate bonds, large underwriting on a firm commitment basis in our investment banking business, failure to liquidate financial asset investments at reasonable prices, 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

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financing may not be available on acceptable terms or at all due to unfavorable market conditions and disruptions in the credit and capital markets.

We had negative operating cash flows during the Track Record Period, and may continue to experience the same in the near term after the Global Offering.

Our capital-based intermediary businesses, in particular, our credit transactions business, and our proprietary trading business are capital intensive and involve substantial operating cash outflows. Since we commenced our margin financing and securities lending business in 2012, our credit transactions business demonstrated significant growth in scale. In 2012, 2013 and 2014, we recorded operating cash outflows of RMB112.5 million, RMB1,377.3 million and RMB841.3 million, respectively.

Our capital-based intermediary businesses have contributed considerably to our revenue and profit growth during the Track Record Period, and as a result, we plan to use a significant portion of the net proceeds from the Global Offering to further develop these businesses. Please refer to “Future Plans and Use of Proceeds.” We expect to use approximately 45.0% of the net proceeds from the Global Offering to provide margin financing and securities lending services and an additional 20.0% to provide other capital-based intermediary services, including, among others, securities-backed lending services, 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 inflows from financing activities. In addition, we issued RMB1.5 billion of subordinated corporate bonds in October 2014 to replenish our working capital, which will also be treated as cash inflow from financing activities. As we intend to actively expand our capital-based intermediary businesses, we may continue to report negative operating cash flows in 2015 and in 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 are subject to extensive regulatory requirements in the PRC, the non-compliance with which 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 that we may offer, restricting the types of securities in which we may invest and limiting the number and location of branches we may establish. Please see “Regulatory Environment” for more details. In addition, in the fourth quarter of 2014, the CSRC conducted on-site inspection of the margin financing and securities lending business of certain PRC securities firms. It has identified a number of non-compliances and issued administrative penalties against several securities firms, including the temporary suspension of their margin financing and securities lending business. We cannot assure you we will not be subject to administrative penalties from the CSRC in the future, and in the event we are penalized, our business, results of operations, financial condition and prospects could be materially and adversely affected.

The PRC regulatory authorities conduct periodic inspections, examinations and inquiries in respect of our compliance with such requirements. Based on the assessment results of the effectiveness of internal control, risk management capabilities, status of continuous regulatory compliance, the results of operations and market competitiveness, the CSRC assigns a regulatory rating, in five classes

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(A, B, C, D and E) and 11 levels altogether, to each securities firm. We experienced fluctuations in our regulatory ratings during the Track Record Period. In 2012, 2013 and 2014, the CSRC assigned us a “BBB,” a “BB” and an “A” regulatory rating, respectively. For further details on the reasons of our regulatory rating fluctuations, please see “Business—Risk Management” of this prospectus. Although we strive to improve our risk management, compliance and results of operations in order to maintain and increase our regulatory rating assigned by the CSRC, we cannot assure you that the CSRC will not lower our regulatory rating in the future. If the CSRC lowers our regulatory rating, we may be subject to requirements of a higher ratio for risk capital reserves or a higher reserve ratio for the securities investor protection fund, or we may no longer meet the requirement of conducting a new business or may not be able to expand certain existing businesses, such as the private placement bond underwriting business, which requires a securities company to maintain a regulatory rating of “B” or higher for the most recent year, any of which may have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that we will be able to meet all the applicable regulatory requirements, or comply with all the applicable regulations and guidelines at all times. Failure to do so could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating, which occurred in 2013 due to an incident of regulatory non-compliance, revocation of the business license and limitations or prohibitions on our future business activities, which may limit our ability to conduct pilot programs and launch new businesses and products that are designated by the CSRC to be tentatively available to the PRC securities industry, which means that the CSRC will consider a securities company’s regulatory points in determining whether and when it may participate in such pilot runs of new businesses and products, and may harm our reputation, and consequently, materially and adversely affect our business, financial condition and results of operations. For further details on the downgrading of our regulatory rating during the Track Record Period, please see “Business—Legal and Regulatory Compliance—Regulatory Non-compliance.” Failure to comply with regulatory rules or guidance may also result in regulatory authorities taking measures, including, but not limited to, (i) imposing restrictions on distribution of dividends, payment of remuneration and provision of benefits by us to our directors, supervisors and senior management; (ii) restricting our ability to transfer, deal with or create other rights on our assets; (iii) ordering us to change any one or more of our Directors, Supervisors and senior management members, or restricting the rights of such persons; (iv) ordering our Controlling Shareholders to transfer their equity interests, or imposing restrictions on the exercise of rights by our Controlling Shareholders; and (v) ordering us to suspend our operations for rectification or designating other parties to act as a custodian or to take over our operations. In addition, during the Track Record Period, PRC regulatory authorities, such as the CSRC and its local bureaus, conducted periodic and random on-site inspections of our headquarters and branches, and issued reports or regulatory letters to us which identified certain of our operational and regulatory deficiencies. Please see “Business—Legal and Regulatory Compliance—Regulatory Inspections” for more information on the results of these visits.

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 occasion, we may fail to meet certain requirements and guidelines set by the PRC regulatory authorities. For example, on February 13, 2015, the CSRC issued a notice of criticism, which admonished a number of securities firms, including us, that we did not timely file a report with SAC regarding a practicable three-year plan to replenish our capital as requested by SAC pursuant to the Notice on Relevant Works for Securities Companies on the

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Submission of Supplementary Capital Plan (《關於證券公司報送資本補充規劃有關工作的通知》) published on November 14, 2014, although we made timely filing of such plan with the CSRC. The CSRC has advised us and other relevant securities companies to take this matter seriously and it will monitor the implementation and risk management of such plan. From time to time, we or our employees may have been involved in incidents of non-compliance and received related notices or warnings from the relevant regulatory authorities. These incidents of non-compliance included, among other things, failure to enforce anti-money laundering procedures, failure to disclose relevant risks to a particular customer and failure to conduct return visit to such customer, employee's misconduct in transferring funds and buying and selling stocks on customer's behalf as well. Please see "Business—Legal and Regulatory Compliance—Regulatory Non-compliance" for further details. Material incidents of non-compliance may subject us to penalties or restrictions on our business activities, which could have a material adverse effect on our business, results of operations or financial condition.

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 industry where many aspects of our businesses depend on obtaining and maintaining the necessary approvals, licenses or permits from regulatory authorities, including the CSRC. Please see "Regulatory Environment." In order to obtain these business qualifications, we need to comply with regulatory requirements in various aspects, including Net Capital, risk management, corporate governance, professional staff, corporate structure and compliance operations. Our compliance obligations are subject to scrutiny when we apply for approvals, licenses or permits to conduct new businesses or offering new products. If we fail to continuously comply with the regulatory requirements in certain aspects, we may encounter the risks of being disqualified for our existing businesses or being rejected for renewal of our qualifications upon expiry by the regulatory authorities. In addition, in respect of any new business 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 businesses as planned or recover certain parts of our initial investments, or we may fall behind our competitors in such businesses or lose our existing customers.

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

According to Article 10 and Article 25 of the Rules for Establishment of Foreign-invested Securities Companies (《外資參股證券公司設立規則》) (effective from October 11, 2012) prescribed by the CSRC, the equity interest of a listed PRC-incorporated securities firm held (including direct holding and indirect control) by all foreign investors shall not exceed 25% of its total issued share capital, and the aggregate direct and indirect shareholdings of foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%. In addition, Rule 8.08(1) of the 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, and pursuant to the waiver granted to us by the Stock Exchange, the minimum public float of the Company shall be set at 23.267%. In order to fulfill the foregoing requirements, we will not grant any over-allotment option to the Underwriters. In addition, after the Global Offering, we may not be able to issue additional H Shares or other equity or equity-linked securities offshore unless: (i) we maintain the prescribed foreign shareholding percentage through issuing Domestic Shares or through A share offering at the same time when we issue additional H Shares or other equity or equity-linked securities offshore; (ii) the relevant regulatory requirements relax; or (iii) we are able to obtain a

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waiver from the regulatory authorities for the strict compliance with the foreign shareholding requirement under the PRC rules.

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 in a variety of aspects, including business licenses, scope of products and services and the Net Capital requirement. As the PRC securities industry continues to mature, 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 and securities-backed lending. 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.

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 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 existing business practices or causing us to incur 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 depend on key management and professional staff and our business may suffer if we are unable to retain or replace them.

The success of our business depends on, to a large extent, our ability to attract and retain key personnel who possess in-depth knowledge and understanding of, and extensive working experience in, the securities and financial markets. 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. Due to the expansion of our business and our increasing range of products and service offerings, we need talented employees. Therefore, we devote considerable resources to recruiting and retaining qualified personnel. However, the market for quality professionals is highly competitive and we face increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are vying for the same pool of talent. Intense competition may require us to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could result in additional expenditures. We may be unable to attract or retain these personnel and the failure to do so could severely disrupt our business and prospects. In addition, due to the rapid development of the PRC securities industry, our

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current professionals' knowledge and skills may be insufficient to meet our needs for product and service innovations, which may adversely affect the development of our business.

Some of our key employees are subject to non-compete arrangements. However, we cannot assure you that such arrangements can be fully and legally enforced. If any of our senior management or other key personnel joins or establishes a competing business, we may lose some of our clients, which may have a material adverse effect on our business.

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 history. Our historical high rate of growth and the limited operating history of our new businesses make it difficult for potential investors to evaluate our business and financial prospects. We cannot assure you that we will be able to sustain our growth or may not even be able to grow our business at all.

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

In the course of our business, we often commit substantial amounts of our own capital to certain types of businesses or asset classes, including our credit transactions, proprietary trading, asset management and direct investment businesses. This commitment of capital exposes us to concentration risks, including (i) market risk, in the case of over-concentration of holdings in certain assets or asset classes as part of our proprietary trading activities; (ii) credit risk, in the case of our margin financing and securities lending and securities-backed lending businesses; and (iii) payment risk, in the case of investing in our self-developed asset management products with our own funds. During the Track Record Period, we purchased our self-developed collective asset management products by using our own funds. As of December 31, 2014, we invested an aggregate RMB435.2 million of our own funds in subordinated tranches of 23 self-developed collective asset management schemes (including funds invested by Guolian Capital in nine such schemes). Any significant decline in the value of such assets may materially and adversely affect our business, financial condition and results of operations.

We may not be able to detect and prevent fraud or other misconducts committed by our employees, representatives, agents, clients or other third parties on a timely basis.

We may be exposed to fraud or other misconducts committed by our employees, representatives, agents, clients or other third parties, including, among others, unauthorized trading, misusing or disclosing confidential information, providing false information, forging corporate seals, illegal fundraising, improper tunneling and insider trading, or otherwise not complying with laws or our internal control procedures. These incidents of misconduct could subject us to financial losses and sanctions imposed by governmental authorities, as well as adversely affect our reputation. In addition, alleged or actual employee misconducts could result in investigations or prosecutions of the employees engaged in the subject activities or 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 October 2013, the CSRC's local bureau in Jiangsu province issued an administrative supervision measure to one of our employees at our Changzhou

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Tongjiang Avenue branch with respect to his misconduct in transferring funds and buying and selling stocks on customers' behalf. Please see "Business—Legal and Regulatory Compliance—Regulatory Non-compliance" for further details.

Our internal control procedures are designed to monitor our operations and ensure our overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconducts, and the precautions we take to prevent and detect such activities may not be fully effective. We cannot assure you that fraud or other misconducts will not occur in the future. Should we fail to detect and prevent fraud and other misconducts, our business reputation, financial condition and results of operations may be materially and adversely affected.

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, anti-terrorism laws and other regulations in the PRC and overseas. 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. Please 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, such policies and procedures in some cases have only recently been adopted and may not completely eliminate instances in which we may be used by other parties to engage in money laundering and other illegal or improper activities. For instance, in July 2014, Taizhou Central Branch of the PBOC conducted an on-site inspection to our Taizhou Jichuan East Road branch, and detected certain weaknesses in our anti-money laundering measures. As a result, we were imposed a penalty of RMB100,000 by the regulatory authority. Please see "Business—Legal and Regulatory Compliance—Regulatory Non-compliance." In the event that we fail to fully comply with applicable laws and regulations, the relevant government agencies may impose fines or other penalties on us.

Our business may be subject to risks associated with expansion outside Jiangsu province.

We have expanded, and intend to further expand, our operations beyond Jiangsu province. Such expansion may increasingly subject us to risks, including:

- 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;
- difficulties in recruiting and retaining qualified personnel;

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- potential adverse tax consequences; and
- difficulties in effectively enforcing contractual or legal rights.

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, depositories, 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 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 adversely affect our business operations.

In addition, as our interconnectivity with our clients grows, our business also 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.

A failure to appropriately identify and address conflicts of interest could 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. Conflicts of interests may arise among (i) our various operating departments; (ii) our clients and us; (iii) our various clients; (iv) our employees and us; or (v) our clients and our employees. Please see "Business—Internal Control Measures—Conflicts of Interest."

Although we have implemented extensive internal control and risk management procedures that are designed to identify and address conflicts of interest, appropriately identifying and dealing with potential conflicts of interest are complex and difficult. 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 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 and other 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.

Various laws, rules and regulations 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 confidential information of our clients could create a negative public or client perception of our operations or our brand name, which may materially and adversely affect our reputation and prospects.

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If our Group fails to adequately protect the intellectual property rights, our brand and reputation would be materially and adversely affected.

Our Group owns two registered trademarks and one computer software copyright in China and two registered trademarks in Hong Kong. In addition, Guolian Group is seeking protection of its design trademark which is licensed to us through administrative proceedings in the PRC.

On January 11, 2012, Guolian Group applied to the trademark office of the State Administration for Industry and Commerce (hereinafter referred to as the “trademark office”) for the registration of its design trademark. On March 7, 2013, the trademark office issued the Notice of Trademark Rejection (《商標駁回通知書》), rejecting the trademark application made by Guolian Group for such design trademark on the ground that it is similar to the registered trademark by other parties in 2006. On March 29, 2013, Guolian Group applied to the Trademark Appeal Board of State Administration for Industry and Commerce (hereinafter referred to as the “Trademark Appeal Board”) for review, and received the Written Decision on Refused Review (《駁回複審決定書》). Subsequently, on May 16, 2014, Guolian Group filed an administrative proceeding with Beijing First Intermediate People’s Court, requesting the revocation of the Written Decision on Refused Review made by the Trademark Appeal Board and the re-issuance of a decision. In September 2014, this lawsuit was accepted by Beijing First Intermediate People’s Court. As of the Latest Practicable Date, the commencement date of the hearing has not been finalized.

In addition, “Guolian” was previously registered as a word trademark by two third parties, whose business scope overlapped with ours. We currently have not submitted an application for the registration of “Guolian” as a word trademark. However, we have not used the word “Guolian” as a trademark, except in instances where we used such word for distinguishing purposes in the design trademark licensed by Guolian Group. Other than the foregoing, we only used the word “Guolian” in our Company name. Although the name of our Company was approved and registered with Wuxi AIC and the continuing usage of “Guolian” in our Company name is protected by the existing PRC laws, according to Jingtian & Gongcheng, our PRC legal advisor, we cannot assure you that we will not be involved in potential lawsuits for trademark infringement. If we are prohibited from using “Guolian” as a word in our Company name or the design trademark of Guolian Group, we will not be able to effectively leverage on the reputation, brand recognition and history of Guolian Group, in which case, we may not be able to successfully source new customers to grow our business or maintain our existing customer base. If any of the foregoing occurs, our reputation, results of operations and business prospects may be materially and adversely affected. However, the financial impact on us is uncertain in the event we are ordered to cease using “Guolian” in our Company name or the design trademark of Guolian Group.

Guolian Group is able to exercise significant influence over us and its intent may not be aligned with the intent of our other Shareholders.

Following the completion of the Global Offering, Guolian Group, through its wholly-owned subsidiaries, Wuxi Electronic, Guolian Textile and Guolian Environment, and its majority-owned subsidiary, Guolian Trust, will control an aggregate 68.484% of our Shares. Consequently it will have the ability to exercise significant influence over us, including, among others, matters relating to:

- nomination and election of our Directors and Supervisors;
- determination of business strategies and investment plans;

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- determination of dividend distribution;
- change of use of proceeds; and
- review any plans related to major corporate activities, including mergers, acquisitions or investments.

In addition, during the Track Record Period, there were overlapping businesses between Guolian Group and our Company, such as the use of our trademark and direct investment business. Although Guolian Group has undertaken 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, it has substantial influence over us and its interests may not be consistent with that of our other Shareholders.

We or our landlords do not possess the relevant land use right certificates or building ownership certificates for some of the properties owned or leased by us.

Properties owned or leased by us primarily consist of operating premises and office buildings. Certain of our landlords have not yet obtained title certificates for relevant properties that we lease. As of the Latest Practicable Date, for our leased properties, our landlords had not provided proper title certificates or proofs of authority to lease the properties for 10 buildings with a gross floor area of approximately 11,783.02 sq.m., accounting for approximately 20.8% of the total gross floor area of the buildings we leased. Please see “Business—Properties.”

We are working with the relevant parties to cure title defects, but the timing for obtaining such building ownership certificates is beyond our control. Before we or our landlords obtain the proper building ownership certificates for such properties, our rights in relation to such properties might not be entirely protected. Any dispute or claim related to the title of the properties owned or leased by us may result in the relocation of our operating premises or offices.

We cannot assure you that our use and occupation of the relevant land and buildings will not be challenged, and there is no assurance that we will be able to secure alternative properties for our business if we are required to relocate. If we or our landlords cannot obtain the relevant building ownership certificates and land use right certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, incur additional relocation costs, or our business operations may be disrupted, any of which may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our operations rely heavily on the stable and effective operations of our IT systems and are also affected by the operations of the IT systems of telecommunication carriers, exchanges, clearing agents, depositaries and other financial intermediaries. Our securities trading processing systems are highly automated. The proper functioning of our securities 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 disaster recovery centers in Wuxi to carry on principal functions in the event of a catastrophe or failure of our systems. 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.

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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.

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 file management issues across our various IT systems and platforms. If we upgrade our information systems or launch new information systems for our new business, we may encounter disruption, breakdown or slowdown of the systems due to their defects, the failure to upgrade the original systems or the operational errors of technicians, which may result in client dissatisfaction.

If our information systems are unable to be improved 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, litigation or adverse effects on our reputation.

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 customers due to their convenience and user-friendliness. We rely heavily on technology, particularly the Internet, to provide high quality online services to our clients.

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.

The third-party financial products we sold to our customers on a commission basis involve various risks, if we fail to identify, fully recognize or disclose these risks, our reputation, customer relationship, operations and prospects will be adversely affected.

We sell a variety of financial products developed by third-party financial institutions on a commission basis. These products usually have complex structures, which are exposed to numerous risks, including credit risk, market risk, liquidity risk and other risks. Our ability to sell these products depends on whether we are able to identify and understand, among others, the risks associated with these products. Although we implemented stringent risk management policies and procedures, they may not be fully effective in mitigating all market-related and other risks faced by our customers. If we fail to identify, fully recognize or disclose the risks related to these products sold by us to our customers, which causes economic losses or other damages to our customers, our reputation, customer relationship, operations and prospects will be materially and adversely affected.

RISKS RELATING TO THE PRC

The economic, political and social conditions of PRC and government policies could affect our business, financial condition, results of operations and prospects.

We conduct all of our businesses in China, all of our assets are located in China and all of our revenue is derived from the securities markets in China. Accordingly, our business, financial condition,

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results of operations and prospects are, to a material extent, subject to economic, political and legal developments in China. The PRC economy differs from the economies of developed countries in many respects, including but not limited to, government involvement, level of economic development, growth rate and foreign exchange controls.

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 has significant oversight over the economic growth of the PRC through various measures, including, among others, 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. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not benefit from some of these measures.

The PRC government has the power to implement macroeconomic measures affecting the PRC economy. For example, in 2011, the PRC government introduced a number of monetary tightening measures to curb the overheated real estate markets and increasing inflation in the PRC. In 2012 and 2013, the PRC economy is under structural adjustment, such as industrial restructuring and optimizing resource allocation. The various macroeconomic measures adopted by the PRC government to stimulate economic growth may not be effective as expected in sustaining the current growth of the PRC economy. In addition, if any macroeconomic measure reduces the disposable income of the overall population who purchase securities products or services, such measures may have a material adverse effect on our business, financial condition, results of operations and prospects.

Though the PRC has been one of the world's fastest growing economies as measured by GDP growth in recent years, the PRC may not be able to sustain historical growth rates. Since the global financial crisis and subsequent economic slowdown, the GDP growth in the PRC has slowed down. In 2013, the PRC's annual GDP growth rate was 7.7%, the lowest also since 1999. An economic slowdown in the PRC could materially and adversely affect the securities markets in the PRC and Hong Kong, which could adversely affect our financial condition and results of operations.

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

Our business and operations are conducted in the PRC and are governed by the PRC laws, 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

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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 difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are incorporated under the laws of the PRC and all of our assets are located in the PRC. In addition, almost all of our Directors, Supervisors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside PRC upon us or most of our Directors Supervisors and executive 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, Supervisors and executive officers.

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

Investments in PRC securities firms are subject to ownership restrictions. Prior approval from the CSRC's local bureau is required for any person or entity to hold, directly or indirectly, 5% or more of the registered capital or total issued shares of a PRC securities firm. If a shareholder of a PRC securities firm increases its direct and indirect shareholding to 5% or more without obtaining prior approval from the CSRC's local bureau, such shareholder's voting right is invalid when it reaches the 5% threshold and it could be subject to CSRC sanctions, such as the correction of such misconduct, fines and confiscation of any related gains. Current ownership restrictions and future changes in ownership restrictions as imposed by the PRC government may materially and adversely affect the value of your investment.

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 surplus reserve 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 adversely impact our ability to make dividend distributions to our Shareholders and our cash flow, including periods in which we are profitable.

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You will 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 of the Company (“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》) 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% to 20% (usually 10%), 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% withholding tax on dividends received from us. For additional information, please see “Appendix III—Taxation and Foreign Exchange-Taxation in the PRC” to 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% 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, although some H share-listed companies have started to withhold the 10% individual tax as to the dividend paid to non-PRC resident individual H shareholders, in practice the PRC tax authorities had not sought to collect individual income tax on gains obtained through dividend and sale or disposition of H shares in the open market. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Pursuant to the EIT Law and its implementation regulations thereof, non-PRC resident enterprises are subject to enterprise income tax at a rate of 10% on any income generated within the PRC, and such income includes dividends received from the PRC companies and gains realized from the disposal of equity in the PRC companies, which may be deductible under the special arrangement or applicable treaties entered into between the PRC and jurisdiction where the relevant non-PRC resident enterprise resides. Notice of Withholding and Payment of Enterprise Income Tax for PRC Resident Enterprises Paying Dividends to Overseas Non-resident Enterprise Shareholders of H Shares (《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 SAT on November 6, 2008, clarified that PRC resident enterprises are required to withhold enterprise income tax at a rate of 10% on distributions of dividends payable to overseas non-PRC resident enterprise holders of H Shares with respect to the dividends distributed out of profit earned after January 1, 2008. The Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding B Shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》), issued by the SAT on July 24, 2009, further provides that any PRC-resident enterprise publicly listed on overseas stock exchanges shall withhold and pay enterprise income tax at a rate of 10% on dividends that it distributes to non-PRC resident enterprises. Any non-resident enterprise shareholder who is entitled to tax treaty treatment shall be subject to the relevant provision stipulated in the tax treaty. According to the Interim Measures for Source-based Withholding of Enterprise Income Tax on Non-resident Enterprises (《非居民企業所得稅源泉扣繳管理暫行辦法》) issued by the SAT on January 9, 2009, in offshore share transfers between non-resident enterprises, the party that receives income is required to, personally or through proxy, file enterprise income taxes with the

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competent PRC tax authorities in the local jurisdiction where the PRC enterprise whose shares have been transferred is located. Such PRC enterprise shall assist the tax authorities in collecting tax from the non-resident enterprises. Please see “Appendix III—Taxation and Foreign Exchange—Taxation in the PRC” for further details. As of the Latest Practicable Date, uncertainties existed as to how the tax on gains realized by non-PRC resident holders of H Shares through the sales or transfers of H Shares is levied. If such tax is collected in the future, the value of investments in H Shares by such non-PRC resident enterprises may be materially and adversely affected.

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

Most of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is currently not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our H Shares. Under China’s existing foreign exchange regulations, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with various procedural requirements.

However, if the PRC government were to impose restrictions on access to foreign currencies for current account transactions at its discretion, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. On the other hand, most of foreign exchange transactions under capital account in the PRC continue to be not freely convertible and require the approval of SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or to obtain foreign currencies for capital expenditures.

Future fluctuations in the value of Renminbi could have a material adverse effect on our financial condition and results of operations.

We receive all of our payments from customers in Renminbi and will need to convert Renminbi into foreign currencies for the payment of dividends, if any, to holders of our H Shares. The Renminbi 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. We may not be able to pay dividends in foreign currencies to our Shareholders if the PRC government takes measures in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of 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.

The exchange rate of Renminbi against U.S. dollars and other currencies fluctuates and is affected by, among other things, changes in the PRC’s and international political and economic conditions and the PRC government’s fiscal and currency policies. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. Renminbi appreciated more than 20% against U.S. dollars over the following three years. From July 2008 to June 2010, Renminbi traded within a narrow range against U.S. dollars. On June 19, 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. Since June 2010, Renminbi has appreciated against the U.S. dollars from approximately RMB6.8275 per US\$1.00 to

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RMB6.1190 per US\$1.00 on December 31, 2014. It is difficult to predict how the Renminbi exchange rates may change. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of Renminbi against U.S. dollars. We cannot assure you that Renminbi will not experience significant appreciation against U.S. dollars in the future.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of Renminbi against U.S. dollars, Hong Kong dollars or any other foreign currencies may result in the decrease in the value of our foreign currency-denominated assets and our proceeds from the Global Offering. Conversely, any depreciation of Renminbi may adversely affect the value of, and any dividends payable on, H Shares in foreign currency. Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk. As a result, any significant increase in the value of Renminbi against foreign currencies could reduce the value of our foreign currency denominated revenue and assets and could materially and adversely affect our business, financial condition, results of operations and prospects.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on our business operations, financial condition and results of operations.

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, where we operate our business. Moreover, the PRC has experienced natural disasters like 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, or the measures taken by the PRC government or other countries in response to such disasters and epidemics, will not seriously disrupt our operations or those of our clients, which may have a material and adverse effect on our business and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations between us (for ourselves and on behalf of the Selling Shareholder) 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 for listing of, and permission to deal in, our H Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our H Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our H Shares may be volatile. The following factors may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;

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- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of additional H Shares by us or our Shareholders.

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

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.”

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

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

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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, litigation 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 Stock Exchange 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, which may result in substantial losses for investors. See “Risk Factors—Risks relating to Our Business and Industry—Our equity financing option is limited due to the CSRC requirements on foreign shareholding in a listed PRC securities firm.”

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\$4.24 per H Share (assuming an Offer Price of HK\$7.68 per H Share, being the mid-point of our Offer Price range of HK\$7.10 to HK\$8.25 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.

Future sales or perceived sales of substantial number of our securities in the public market, including any future public offering in the PRC, 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, and the conversion of a significant number of our Domestic Shares into H Shares could also have a material and adverse effect on the prevailing market price of our H Shares.

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

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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 Stock Exchange pursuant to the 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, our Domestic Shares can be converted to H Shares, if the conversion and trading of H Shares so converted shall have been duly completed pursuant to the requisite internal approval process and the approval from the relevant PRC regulatory authorities, including the CSRC. Such conversion and trading also must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council and the regulations, requirements and procedures of the Stock Exchange. If a significant number of our Domestic Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially and adversely affect the prevailing market price of our H Shares.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering to further develop our margin financing and securities lending business and other capital-based intermediary businesses, proprietary trading business and Internet trading services, and to supplement our working capital. For details of our use of proceeds, please see “Future Plans and Use of Proceeds—Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

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, and, therefore, 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 the sections headed “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.

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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.

Waivers have been granted from Compliance with certain requirements of the Listing Rules by the Stock Exchange. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Stock Exchange has granted to us, a number of waivers from strict compliance with the Listing Rules. Please see “Waivers from Strict Compliance with the Listing Rules” for further details. There is no assurance that the Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could adversely affect us and our Shareholders.

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our H Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE

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

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

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. We have made the following arrangements in order to maintain effective communication with the Stock Exchange:

- we have appointed Mr. Yao Zhiyong, the Chairman of the Board and an executive Director, and Mr. Lei Jianhui, the President and an executive Director, as our authorized representatives and they will serve as our Company’s principal channel of communication with the Stock Exchange. Mr. Yao Zhiyong and Mr. Lei Jianhui have confirmed that they would be readily contactable by the Stock Exchange and possess valid travel documents, and if required, they will be able to meet with the Stock Exchange to discuss any matters in relation to our Company on short notice. Each of the two authorized representatives has been duly authorized to communicate on behalf of our Company with the Stock Exchange;
- we have provided the authorized representatives and the Stock Exchange with the contact details of each Director, including mobile phone numbers, office phone numbers, email addresses and fax numbers (if applicable). 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 Stock Exchange wishes to contact the Directors on any matter and in the event that a Director expects to travel or otherwise be out of office, he or she will provide the phone number of the place of his or her accommodation to the authorized representatives. We will promptly inform the Stock Exchange of any change to the contact details of our authorized representatives and Directors;
- each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to travel to Hong Kong and can meet with the Stock Exchange within a reasonable period of time when requested by the Stock Exchange; and
- we have appointed BOCOM International (Asia) Limited as our compliance advisor who will serve as our additional channel of communication with the 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, and its

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

representative(s) will be fully available to answer enquiries from the Stock Exchange. The compliance advisor will have access to the authorized representatives, the Directors and the other senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company;

- we will ensure that there are adequate and effective means of communication between our Company, the authorized representatives, our Directors and the compliance advisor; and
- we will inform the Stock Exchange as soon as practicable in respect of any change in our authorized representatives and/or the compliance advisor in accordance with the Listing Rules and we will only change the authorized representatives and/or the compliance advisor after having identified appropriate replacement.

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require that there shall be an open market in the securities for which listing is sought and that a sufficient public float of an issuer's listed securities shall be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by public (listed on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, Rule 8.08(1)(d) of the Listing Rules provides that the Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25%, if a new applicant meets the following requirements under Rule 8.08(1)(d) of the Listing Rules:

- (a) the issuer will have an expected market capitalization at the time of listing of over HK\$10 billion;
- (b) the number of securities concerned and the extent of their distribution would enable the market to operate properly with a lower percentage;
- (c) the issuer will make appropriate disclosure of the lower prescribed percentage of public float in the initial listing document;
- (d) the issuer will confirm the sufficiency of the public float in successive annual reports after listing; and
- (e) a sufficient portion (to be agreed in advance with the Stock Exchange) of any securities intended to be marketed contemporaneously within and outside Hong Kong must normally be offered in Hong Kong.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us a waiver from strict compliance with the public float requirements pursuant to Rule 8.08(1)(d) of the Listing Rules, pursuant to which, the minimum public float of the Company shall be set at 23.267%.

In support of such application, our Company has submitted and confirmed to the Stock Exchange that:

- (a) based on the total number of 1,902,400,000 shares in issue immediately after completion of the Global Offering and the Offer Price of between HK\$7.10 and HK\$8.25, our Company expects that our market capitalization will be approximately between HK\$13.51

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

billion and HK\$15.69 billion at the time of Listing. Thus the proposed market capitalization of our Company upon completion of the Listing is expected to be beyond the threshold required under Rule 8.08(1)(d) of the Listing Rules and therefore satisfies the market capitalization requirement for a lower public float;

- (b) there will be an open market for the H Shares and that the number of H Shares and the extent of their distribution would enable the market to operate properly with a public float of 23.267%;
- (c) our Company proposes to offer by way of Hong Kong Public Offering 10% of the initial number of H Shares being offered under the Global Offering, which is subject to a clawback mechanism as required under Paragraph 4.2 of Practice Note 18 to the Listing Rules. In addition, the International Offering would also be made to institutional, professional or other investors based in, among other places, Hong Kong. Therefore, a sufficient portion of H Shares offered in the Global Offering will be offered in Hong Kong;
- (d) appropriate disclosure of the lower prescribed percentage of public float of our Company is made in this prospectus and our Company will confirm the sufficiency of the public float in successive annual reports after the Listing; and
- (e) our Company will continue to comply with Rules 8.08(2) and 8.08(3) of the Listing Rules and also implement measures and mechanisms to ensure continual maintenance of the minimum percentage of public float prescribed by the Stock Exchange.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into, and expects to continue after the Listing, certain transactions which will constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a conditional waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement as set out in Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions.

The details of such waiver are set out in the section headed “Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 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 approval from the CSRC for the Global Offering and the making of the application to list the H Shares on the Stock Exchange on May 26, 2015. In granting such approval, 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 purchase 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 Stock Exchange is sponsored by the Joint Sponsors. 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 the section headed "Underwriting" in this prospectus, subject to agreement on the Offer Price between us (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (on behalf of the Underwriters). The International Offering is expected to be fully underwritten by the International Underwriters and the International Underwriting Agreement is expected to be entered into on or about June 26, 2015. For further details about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 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 Selling Shareholders, the Joint Sponsors, 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, please see the section headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus and the relevant Application Forms.

ROLE OF THE PRC FINANCIAL ADVISOR

We have appointed Hua Ying Securities to act as our PRC financial advisor. The appointment of Hua Ying Securities is at our own initiative and not a requirement under the Listing Rules and is separate and distinct from the appointment of the Joint Sponsors.

Under the terms of our engagement, Hua Ying Securities provides us with general assistance and advice in relation to PRC-related matters in connection with the proposed Listing, such as assisting us in liaising with the CSRC and other PRC regulatory authorities for matters in relation to the Listing. All those services of Hua Ying Securities are provided within the PRC, and none of such services is subject to any licenses or approvals from the SFC or any other regulatory body in Hong Kong, or any qualification requirements under the laws of Hong Kong.

BOCOM International (Asia) Limited, ABCI Capital Limited and Qilu International Capital Limited are acting as the Joint Sponsors in our Listing application and will take full responsibility in performing their duties in accordance with the Listing Rules. The role of the PRC financial advisor is different from the role of the Joint Sponsors, who (i) are required by the Listing Rules to be appointed by us to assist with our initial application for the Listing; (ii) must be acceptable to the Stock Exchange; and (iii) must perform their duties in accordance with the Listing Rules with impartiality. Each of the Joint Sponsors and Hua Ying Securities discharges its respective duties independently and has not relied on the works done by each other as set out above in respect of the Listing application.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SELLING SHAREHOLDERS

| <u>Name</u> | <u>Number of Sales Shares</u> |
|--|-------------------------------|
| 1. Guolian Group | 16,558,671 |
| 2. Guolian Trust | 11,877,448 |
| 3. Wuxi Electric | 8,125,555 |
| 4. Guolian Textile | 2,215,859 |
| 5. Guolian Environmental | 886,344 |
| 6. Wuxi New District Development Group Co., Ltd.* (無錫市新區發展集團有限公司) | 354,537 |
| 7. Wuxi Xinye Construction Development Co., Ltd.* (無錫市新業建設發展公司) | 177,269 |
| 8. Yixing Assets Management Company* (宜興市資產經營公司) | 44,317 |
| Total | <u>40,240,000</u> |

APPLICATION FOR LISTING OF THE H SHARES ON THE 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 Sale Shares owned by the Selling Shareholders which will be converted from Domestic Shares to H Shares and sold for the benefit of the NSSF pursuant to the relevant PRC laws relating to the conversion/reduction of state-owned shares.

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 Selling Shareholders, the Joint Sponsors, 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

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 the section headed “Risk Factors—Risks Relating to the Global Offering—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” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND 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 the Hong Kong Offer Shares” in 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” in this prospectus.

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.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 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 Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the 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.

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.

RMB0.7890: HK\$1.0000 (set by the PBOC for foreign exchange transactions prevailing on June 12, 2015)

RMB6.2081: 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 June 12, 2015)

HK\$7.7530: 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 June 12, 2015)

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.

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

DIRECTORS

| <u>Name</u> | <u>Residential Address</u> | <u>Nationality</u> |
|--|---|------------------------|
| <i>Executive Directors</i> | | |
| Mr. Yao Zhiyong (姚志勇) | Room 2401, No. 122 Lihu No. 1 Neighborhood Binhu District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Lei Jianhui (雷建輝) | Room 503, No. 4, Jinshuli Chong'an District, Wuxi Jiangsu Province the PRC | Chinese |
| <i>Non-executive Directors</i> | | |
| Mr. Hua Weirong (華偉榮) | Room 1401, No. 24, Yujingwan Garden Binhu District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Jiang Zhijian (蔣志堅) | Room 1901, No. 20, Jinshuyuan New District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Liu Hailin (劉海林) | No. 101 Xuewanli Jinxing Neighborhood, Yangming Street Nanchang District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Liu Gaoyuan (柳高遠) | 555-2-1702, Caozhang Road Nanchang District, Wuxi Jiangsu Province the PRC | Chinese |
| <i>Independent Non-executive Directors</i> | | |
| Mr. Wang Wei (王巍) | No. 405 (North), No. 15 Xila Lane Dongcheng District Beijing the PRC | Chinese |
| Ms. Chen Qingyuan (陳清元) | No. 34, No. 40 Lane (Yi) Dongcheng District Beijing the PRC | Chinese |
| Mr. Fan, Yan Hok Philip (范仁鶴) | 6B Block 1 No.61 South Bay Road Hong Kong | Chinese (Hong Kong) |

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

SUPERVISORS

| <u>Name</u> | <u>Residential Address</u> | <u>Nationality</u> |
|------------------------------|--|--------------------|
| Ms. Yin Zhuowei (殷卓偉) | Room 601, No. 40, Liufangshengxiang Chong'an District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Yang Xiaojun (楊小軍) | No. 8, Wangzhuang Street New District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Jin Guoxiang (金國祥) | Room 702, No. 620 Caozhang New Neighborhood Nanchang District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Zhou Weixing (周衛星) | Room 602, No. 91 Huaigu No. 2 Neighborhood Nanchang District, Wuxi Jiangsu Province the PRC | Chinese |
| Mr. Shan Xudong (單旭東) | Room 101, No. 108 Cuiyuan New Neighborhood Binhu District, Wuxi Jiangsu Province the PRC | Chinese |

Further information about the Directors, Supervisors and other senior management members are set out in the section headed “Directors, Supervisors and Senior Management” in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

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

Qilu International Capital Limited
7/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Global Coordinators

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

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

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

Joint Bookrunners

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

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

Qilu International Capital Limited
7/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

CCB International Capital Limited
12/F., CCB Tower
3 Connaught Road Central
Central
Hong Kong

CMB International Capital Limited
Units 1803-4, 18/F
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Joint Lead Managers

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

PRC Financial Advisor

Hua Ying Securities Co., Ltd.
15th Floor, No.19, Gaolang East Road
New District, Wuxi
Jiangsu Province
the PRC

Legal Advisor to the Company

as to Hong Kong law:
Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:
Beijing Jingtian & Gongcheng Law Firm
34th Floor, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District, Beijing
the PRC

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

| | |
|--|---|
| Legal Advisor to the Underwriters | <i>as to Hong Kong law:</i> Paul Hastings 21st – 22nd Floor, Bank of China Tower 1 Garden Road Central Hong Kong <i>as to PRC law:</i> Grandall Law Firm (Shanghai) 23F, Garden Square 968 Beijing West Road Shanghai the PRC |
| Auditors and Reporting Accountant | PricewaterhouseCoopers Certified Public Accountant 22nd Floor, Prince’s Building Central Hong Kong |
| Independent Property Valuer | Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen’s Road East Hong Kong |
| Compliance Advisor | BOCOM International (Asia) Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong |
| Receiving Banks | Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street, Central Hong Kong Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong Wing Lung Bank Limited 6/F, Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong |

CORPORATE INFORMATION

| | |
|---|--|
| Registered Address | No. 8 Jinrong One Street Wuxi, Jiangsu Province the PRC |
| Headquarters/Principal Place of Business | 9th Floor, No. 8 Jinrong One Street Wuxi, Jiangsu Province the PRC |
| Place of Business in Hong Kong | 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |
| Company Website | www.glsc.com.cn <i>(information on the website does not form part of this prospectus)</i> |
| Legal Representative | Yao Zhiyong (姚志勇) |
| Joint Company Secretaries | Lin Fanyu (林凡钰) CPA 555-1-201, New Century Apartment Nanchang District, Wuxi Jiangsu Province the PRC Leung Wing Han Sharon (梁穎嫻) FCS, FICS, FCCA and CPA 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong (for details of the qualifications of Lin Fanyu and Leung Wing Han Sharon, please see "Directors, Supervisors and Senior Management—Joint Company Secretaries" in this prospectus) |
| Authorized Representatives | Yao Zhiyong (姚志勇) Room 2401, No. 122 Lihu No.1 Neighborhood Binhu District, Wuxi Jiangsu Province the PRC Lei Jianhui (雷建輝) Room 503, No. 4, Jinshuli Chong'an District, Wuxi Jiangsu Province the PRC |

CORPORATE INFORMATION

| | |
|--|---|
| Strategy Committee | Yao Zhiyong (姚志勇) (<i>Chairman</i>) Hua Weirong (華偉榮) Jiang Zhijian (蔣志堅) Fan Yan Hok, Philip (范仁鶴) Lei Jianhui (雷建輝) |
| Remuneration and Nomination Committee | Fan, Yan Hok Philip (范仁鶴) (<i>Chairman</i>) Chen Qingyuan (陳清元) Hua Weirong (華偉榮) |
| Audit Committee | Chen Qingyuan (陳清元) (<i>Chairlady</i>) Wang Wei (王巍) Jiang Zhijian (蔣志堅) |
| Risk Control Committee | Yao Zhiyong (姚志勇) (<i>Chairman</i>) Hua Weirong (華偉榮) Chen Qingyuan (陳清元) Liu Hailin (劉海林) Jiang Zhijian (蔣志堅) |
| H Share Registrar | Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong |
| Principal Bankers | Bank of Communications Co., Ltd. Wuxi Nanmen Sub-branch No. 158, Nanchang Street Nanchang District, Wuxi Jiangsu Province the PRC Agricultural Bank of China Limited Wuxi New District Sub-branch No. 58, Wangzhuang Road New District, Wuxi Jiangsu Province the PRC Bank of China Limited Wuxi Branch No. 258 Zhongshan Road Chong'an District, Wuxi Jiangsu Province the PRC |

CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited

Wuxi Chengzhong Sub-branch
No. 168, Renmin Middle Road
Chong'an District, Wuxi
Jiangsu Province
the PRC

China Construction Bank Corporation

Wuxi Branch
No. 88, Wuai Road
Nanchang District, Wuxi
Jiangsu Province
the PRC

China Merchants Bank Co., Ltd.

Wuxi Branch
No. 9, Xueqian Street
Chong'an District, Wuxi
Jiangsu Province
the PRC

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, some information and data contained in this section are 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 firms, fund management firms, 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. Historic data and market estimates provided by Wind Info are collected by Wind Info independently from various public information sources, including the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

We did not commission Wind Info to provide the information and data presented herein, which are accessible to all of its subscribers.

We believe that the sources of this information are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners or any other party involved in the Global Offering and no representation is given as to its accuracy. 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.

ECONOMIC ENVIRONMENT AND FINANCIAL DEVELOPMENT POLICIES

The PRC economy has grown significantly over the past decades and will continue to experience steady growth in the foreseeable future

China experienced rapid economic growth since the economic reforms and opening-up policies initiated by the PRC government in the late 1970s, and has replaced Japan as the second largest economy in the world since February 2011. From 2010 to 2014, China's nominal GDP increased from approximately RMB40.2 trillion to approximately RMB63.6 trillion, representing a CAGR of 12.2%. We believe that China's economy will continue to achieve steady growth in the foreseeable future. China's per capita GDP also increased from approximately RMB30,567 in 2010 to RMB46,652 in 2014, representing a CAGR of 11.2%.

The rapid economic development in the PRC has accelerated the accumulation of personal wealth of its residents. According to Wind Info, the per capita disposable income of urban residents in the PRC increased from RMB19,109 to RMB28,844 from 2010 to 2014, representing a CAGR of 10.8%. As the PRC economy continues to expand, we believe per capita disposable income of its urban residents has further growth potential. The following table sets forth nominal GDP and per capita disposable income of urban residents in China for the years indicated.

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>CAGR (%)</u> |
|---|-------------|-------------|-------------|-------------|-------------|-----------------|
| Nominal GDP (RMB in billions, except percentages) | 40,151.3 | 47,310.4 | 51,947.0 | 58,801.9 | 63,646.3 | 12.2 |
| Per capita disposable income of urban residents (RMB, except percentages) | 19,109.4 | 21,809.8 | 24,564.7 | 26,955.1 | 28,844.0 | 10.8 |

Source: Wind Info

INDUSTRY OVERVIEW

Jiangsu province enjoys strong economic growth and benefits from favorable government policies

Jiangsu province is located in the eastern coastal area of China, and is among the most economically developed provinces in China. In terms of nominal GDP, Jiangsu province ranked second among all provinces in China and accounted for approximately 10.2% of China's nominal GDP in 2014. Its nominal GDP increased from RMB4.1 trillion in 2010 to RMB6.5 trillion in 2014, representing a CAGR of 12.0%, ranking second only to Guangdong province in China during the period. Jiangsu province's per capita GDP also increased from RMB52,840 in 2010 to RMB81,874 in 2014, representing a CAGR of 11.6%. As a result of the economic development of the province, the per capita disposable income of its urban residents increased from RMB22,944 in 2010 to RMB34,346 in 2014, both of which were above the national average level during the same period. The following table sets forth nominal GDP and per capita disposable income of urban residents of Jiangsu province for the periods indicated⁽¹⁾.

| | 2010 | 2011 | 2012 | 2013 | 2014 | CAGR (%) |
|---|----------|----------|----------|----------|-------------------------|----------|
| Nominal GDP (RMB in billions, except percentages) | 4,142.6 | 4,911.0 | 5,405.8 | 5,916.2 | 6,508.8 | 12.0 |
| Per capita disposable income of urban residents (RMB, except percentages) | 22,944.3 | 26,340.7 | 29,677.0 | 32,537.5 | 34,346.0 ⁽¹⁾ | 10.6 |

Note:

(1) Data on residents' income issued by Jiangsu Statistics Bureau in according to the new caliber of household survey system under the urban-rural integration of the PRC

Source: Wind Info

We believe Jiangsu province's economic development can be attributable to the rising urbanization rate, which generated increased demand that propels the growth of the local economy. At the end of 2014, according to Wind Info, Jiangsu province's population totaled approximately 79.6 million. The urbanization rate reached 64.1 % at the end of 2013, which was significantly higher than the national urbanization rate of 53.7%.

In addition, Jiangsu province benefited from favorable national and provincial government policies that stimulated its continued economic development, including economic policies and financial industry policies. For example, according to the Development Outlook of Jiangsu Province Coastal Area (《江蘇省沿海地區發展規劃》) approved by State Council and promulgated by the NDRC in July 2009, the PRC government will (i) focus on cultivating the financial markets in Jiangsu province by actively developing local financial services industry and expediting the introduction of various financial institutions; (ii) support the issuance of enterprise bonds and IPOs, as applicable, by qualified enterprises; and (iii) establish financing platforms to support the growth of SMEs. Moreover, the Jiangsu province provincial government issued Opinions on Accelerating Financial Reform and Innovation (《關於加快推進金融改革創新的意見》) on July 24, 2014, to (i) encourage the development and innovation of Jiangsu province's financial holdings platforms; (ii) strengthen the comprehensive investment capabilities of banks, securities firms, futures companies, insurance companies and trust companies; and (iii) further improve the securitization ratio of Jiangsu province.

INDUSTRY OVERVIEW

Wuxi had the second largest nominal GDP among all prefecture-level cities in China and Jiangsu province in 2013 and the third largest in Jiangsu province in 2014, and will continue to maintain its leading position

In 2013, Wuxi had a nominal GDP of RMB807.0 billion, which ranked second only to Suzhou among all prefecture-level cities in China and Jiangsu province. In 2014, the nominal GDP of Wuxi increased to RMB820.5 billion, which ranked third in Jiangsu province behind Suzhou and Nanjing. Wuxi's per capita GDP increased from RMB92,167 in 2010 to RMB126,400 in 2014, which was higher than that of both China and Jiangsu province. In addition, at the end of 2013, it had an urbanization rate of 73.7%, which was higher than that of Jiangsu province of 64.1%, and it had a per capita disposable income of urban residents of RMB38,999. Set forth below is a summary table of nominal GDP of prefecture-level cities in Jiangsu province (including Nanjing, the provincial capital of Jiangsu province) from 2010 to 2014.

| <u>Prefecture-level cities</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014⁽¹⁾</u> |
|------------------------------------|-------------------|-------------|-------------|-------------|---------------------------|
| | (RMB in billions) | | | | |
| Suzhou | 922.9 | 1,071.7 | 1,201.2 | 1,301.6 | 1,376.1 |
| Wuxi | 579.3 | 688.0 | 756.8 | 807.0 | 820.5 |
| Nanjing (provincial capital) | 513.1 | 614.6 | 720.2 | 801.1 | 882.1 |
| Nantong | 346.6 | 408.0 | 458.9 | 503.9 | 565.3 |
| Xuzhou | 294.2 | 355.2 | 401.7 | 443.6 | 496.4 |
| Changzhou | 304.5 | 358.1 | 397.0 | 436.1 | 490.2 |
| Yancheng | 233.3 | 277.1 | 312.0 | 347.6 | 383.6 |
| Yangzhou | 223.0 | 263.0 | 293.3 | 325.2 | 369.8 |
| Taizhou | 204.9 | 242.3 | 270.2 | 300.7 | 337.1 |
| Zhenjiang | 198.8 | 231.2 | 263.0 | 292.7 | 325.2 |
| Huaian | 138.8 | 169.0 | 192.1 | 215.6 | N/A |
| Lianyungang | 119.3 | 141.1 | 160.3 | 178.6 | 196.6 |
| Suqian | 106.4 | 132.1 | 152.2 | 170.6 | 193.1 |

Note:

(1) The nominal GDP for Huaian was not available as of the Latest Practicable Date.

Source: Wind Info

The local government of Wuxi strongly supports the development of the local securities industry and capital market. In July 2014, the Wuxi government promulgated the Opinion on Deepening Financial Reform and Innovation (《關於全面深化金融改革創新的若干意見》), in order to further the innovative reforms in the financial sector, cultivate corporate financial institutions and encourage the development of various types of financial entities, and thus, building a financial system with diversified businesses. In addition, the Wuxi government will actively promote new financial businesses, such as Internet finance, improve financial services and financing platforms for local SMEs.

We believe that the implementation of the above-mentioned government policies and strategic plans will contribute greatly to the economic growth and social wealth accumulation in Jiangsu province and Wuxi, and promote sustainable development of the local securities market.

DEVELOPMENT IN THE PRC SECURITIES INDUSTRY

As a result of China's substantial economic growth and more relaxed regulatory environment, China's capital market has experienced tremendous growth over the last two decades. The total market

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capitalization of companies listed on China's stock exchanges reached RMB37.3 trillion as of December 31, 2014, compared to RMB3.2 trillion as of December 31, 2005, representing a CAGR of 31.2%.

As a part of the measures adopted by the CSRC to streamline the review and approval of securities offerings, approval procedures and document requirements were simplified in 2014. In addition, it is expected that the recent reform to replace the existing approval-based system for stock offerings with a registration-based system in the PRC will likely further unleash the vitality of the capital market. Moreover, compared to other developed international markets, China's securitization ratio is still relatively low, which indicates further growth potential.

Brokerage

Securities Brokerage

In line with the development of the PRC securities market, stocks and funds and bonds trading volume has increased from RMB3.2 trillion and RMB2.8 trillion in 2005, respectively, to RMB79.0 trillion and RMB90.6 trillion in 2014, respectively, representing CAGRs of 42.6% and 46.9%, respectively. In recent years, the average securities brokerage commission rates decreased due to increasingly fierce competition in the securities brokerage business. Moreover, with the emergence of the Internet as a securities brokerage channel in the PRC, the average securities brokerage commission rates are expected to continue to decline. However, the impact resulting from a decrease in the brokerage commission rates on the income of the brokerage business was partially offset by the rapid growth of trading volume of agency sales of stocks and funds and bonds. Meanwhile, securities firms have been striving to supplement the traditional securities brokerage business by providing various value-added services to mitigate the impact of decreasing brokerage commission rates. The following tables set forth the stocks and funds and bonds brokerage trading volume from 2005 to 2014.

| <u>Years</u> | <u>Stocks and funds trading volume in the PRC</u> | <u>Bonds trading volume in the PRC</u> | <u>Total amount</u> | <u>Proportion of Jiangsu province</u> |
|--------------|---|--|-------------------------|---|
| | (RMB in billions) | | | (%) |
| 2005 | 3,243.8 | 2,836.8 | 6,080.6 | 10.7 |
| 2006 | 9,247.2 | 1,827.9 | 11,075.1 | 14.4 |
| 2007 | 46,917.6 | 2,066.7 | 48,984.3 | 16.9 |
| 2008 | 27,294.4 | 2,860.2 | 30,154.6 | 19.2 |
| 2009 | 54,632.7 | 4,018.2 | 58,650.9 | 16.1 |
| 2010 | 55,463.0 | 7,206.6 | 62,669.6 | 14.7 |
| 2011 | 42,801.0 | 21,131.5 | 63,932.5 | 13.3 |
| 2012 | 32,270.7 | 37,831.4 | 70,102.1 | 12.4 |
| 2013 | 48,285.8 | 64,769.4 | 113,055.2 | 12.0 |
| 2014 | 78,961.8 | 90,578.9 | 169,504.7 | 13.2 |

Source: Wind Info, Shanghai Stock Exchange

The securities brokerage business in Jiangsu province fluctuated along with the changes in the PRC securities market. From 2005 to 2014, the securities trading volume of Jiangsu province reached a high of over 19% and has never been less than 10% of the securities trading volume in the PRC, which demonstrated a highly active local securities market. According to Wind Info, the securities trading volume of Jiangsu province increased from RMB651.4 billion in 2005 to RMB2,243.0 billion in 2014, representing a CAGR of 14.7%.

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Unlike the stock markets of other developed countries, a majority of the investors in the PRC stock market are natural person investors. According to the China Securities Registration and Clearing Company Limited, natural person investors hold an overwhelming majority of brokerage accounts opened in China. The table below sets out the total number of brokerage accounts held by natural person investors and the total number of brokerage accounts opened in China at the end of the periods indicated.

| | As of December 31, | | | | | The average percentage |
|--|--------------------|-------|-------|-------|-------|---------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | |
| | (in millions) | | | | | |
| A share accounts held by natural persons | 151.5 | 162.3 | 167.5 | 172.0 | 180.8 | — |
| The total A share accounts opened | 154.5 | 163.0 | 168.1 | 172.6 | 181.5 | — |
| Percentage of the total A share accounts that are held by natural persons (%) | 98.1 | 99.6 | 99.6 | 99.7 | 99.6 | 99.3 |

Source: Yearbook from China Securities Registration and Clearing Company Limited

According to the statistics from the Shanghai Stock Exchange, the average trading volume attributed to natural person investors was 82.8% from 2010 to 2013. We believe that the natural person investors will continue to play a key role in the PRC securities brokerage business in the foreseeable future. The following tables set forth the trading volume and percentage by investor type on the Shanghai Stock Exchange between 2010 and 2013.

| | 2010 | 2011 | 2012 | 2013 | Average |
|---|------|------|------|------|---------|
| | (%) | (%) | (%) | (%) | (%) |
| Natural person investors | 84.6 | 83.5 | 80.8 | 82.2 | 82.8 |
| General legal person ⁽¹⁾ | 2.4 | 2.1 | 2.1 | 2.5 | 2.3 |
| Professional institutions | 13.0 | 14.4 | 17.1 | 15.3 | 14.9 |

Note:

(1) General legal persons refer to legal persons other than professional institutions.

Source: Annual Report of the Shanghai Stock Exchange

Investment Banking

In addition to loans provided by financial institutions to economic entities, equity financing and debt financing serve as major sources for direct financing. In 2014, the amount of corporate bond financing and equity financing on PRC stock markets by non-financial enterprises increased by 33.5% and 103.0%, respectively, as compared to 2013. In the same year, the aggregate amount of debt and equity financing in Jiangsu province increased from RMB1,207.0 billion in 2013 to RMB1,344.0 billion in 2014, which ranked first in China in 2014 compared to third in 2013. From December 31, 2010 to December 31, 2014, the number of the companies listed on PRC stock exchanges increased from 2,063 to 2,613, representing a CAGR of 6.1%. Meanwhile, the market capitalization of listed companies increased from RMB26,542.3 billion as of December 31, 2010, to RMB37,254.7 billion as of December 31, 2014, representing a CAGR of 8.9%. We believe that, with the improvement of the PRC capital market system, direct financing in the PRC capital market will maintain strong growth momentum in the future.

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Equity Financing

While the CSRC has not approved any IPO financing project in 2013, equity financing in the secondary market demonstrated sustained growth and increased from RMB172.2 billion in 2012 to RMB485.6 billion in 2014, representing a CAGR of 67.9%, according to Wind Info. Although by 2013, equity financing through IPO had been suspended by the CSRC for over one year, other equity financing measures, such as preferred shares issuances, were introduced during this period. As a result, the amount of equity financing by way of private placement and allotment increased from RMB126.7 billion and RMB2.0 billion in 2012, respectively, to RMB405.0 billion and RMB13.8 billion in 2014, respectively. The following table sets forth the total amount of equity financing and financing methods in China for the periods indicated.

| | <u>IPO</u> | <u>Private placement</u> | <u>Allotment</u> | <u>Total amount of equity financing in the PRC</u> |
|------------|-------------------|--------------------------|------------------|--|
| | (RMB in billions) | | | |
| 2010 | 448.3 | 255.0 | 143.8 | 887.1 |
| 2011 | 282.5 | 179.7 | 42.2 | 504.4 |
| 2012 | 43.6 | 126.7 | 2.0 | 172.2 |
| 2013 | — | 232.7 | 47.6 | 280.3 |
| 2014 | 66.9 | 405.0 | 13.8 | 485.6 |

Note: The total amount of domestic equity financing excludes the exercise of warrants.

Source: The CSRC

Debt Financing

Benefiting from the continued reforms in, and development of, the PRC bond market, the total amount of debt financing, including, among others, corporate bonds, enterprise bonds and financial bonds underwritten mainly by PRC securities firms increased from RMB1,639.1 billion in 2012 to RMB2,072.9 billion in 2014, representing a CAGR of 12.5%. The following table sets forth the total value of debt financing underwritten by securities firms in the PRC for the years indicated.

| <u>Year</u> | <u>Amount of corporate bonds and enterprise bonds underwritten</u> | <u>Amount of Financial bonds underwritten</u> | <u>Total amount of debt financing underwritten</u> |
|-------------|--|---|--|
| | (RMB in billions) | | |
| 2010 | 315.9 | 95.9 | 661.6 |
| 2011 | 371.5 | 355.6 | 938.4 |
| 2012 | 912.3 | 460.7 | 1,639.1 |
| 2013 | 640.8 | 224.0 | 1,171.6 |
| 2014 | 928.8 | 591.2 | 2,072.9 |

Source: Wind Info

Financial Advisory

Supported by increased industry consolidation, M&A activities in Eastern China were extremely active. In particular, the number of M&A transactions in Jiangsu province ranked first in the past five years, according to Wind Info. The total value of M&A transactions in Jiangsu province increased from RMB12.8 billion in 2010 to RMB45.0 billion in 2014, representing a CAGR of 36.8%.

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We expect this trend to continue to be affected by the transformation of China's economy and further industry consolidation.

OTC Market Business

Since the NEEQ gained increasing importance as a channel for financing for SMEs with high growth potential, the OTC market business has gradually expanded in recent years. A chief method of financing is private placement. According to SAC, as of December 31, 2014, the number of the companies listed on the NEEQ increased to 1,572 from 97 at the end of 2011, representing a CAGR of 153.1%, primarily because the NEEQ substantially expanded its scale in 2014. We expect the number of companies listed on the NEEQ will continue to increase in the future.

Asset Management

According to SAC, the asset management business of the PRC securities firms grew rapidly in the past five years, and the funds entrusted for management increased from RMB186.6 billion in 2010 to RMB7,970.0 billion in 2014, representing a CAGR of 155.6%. The revenue of the asset management business also achieved a CAGR of 54.5%. As a result of the rapid growth of individual wealth and the increasing number of high-net worth individuals, the asset management business is expected to continue to expand. According to the 2014 Hurun Wealth Report, the number of high-net worth individuals and the number of individuals with assets of more than RMB100 million in Jiangsu province were 79,000 and 5,100, respectively, and both ranked fifth in the PRC. Among them, the number of high-net worth individuals and the number of individuals with assets of more than RMB100 million in Wuxi were 14,200 and 970, respectively, and ranked second in Jiangsu province. We expect the increase in the number of high-net worth individuals in Jiangsu province and Wuxi will support the growing demand for asset management and drive the development of such business. The following table sets forth the total amount of funds entrusted for management and net income of asset management business for the periods indicated.

| | <u>Funds entrusted for management</u> | <u>Net income of the asset management business</u> |
|------------|---|--|
| | (RMB in billions) | (RMB in millions) |
| 2010 | 186.6 | 2,183.0 |
| 2011 | 281.9 | 2,113.0 |
| 2012 | 1,890.0 | 2,676.0 |
| 2013 | 5,200.0 | 7,030.0 |
| 2014 | 7,970.0 | 12,435.0 |

Source: SAC

Margin Financing and Securities Lending

Since the margin financing and securities lending business was introduced in 2010, securities firms in China have been committed to developing this business, which helps stabilize brokerage commission rates and increases brokerage trading volume. We believe this business has become, and will continue to be, a growth driver for revenue and profit of PRC securities firms. According to Wind Info, the balance of margin loans and securities lent in the Shanghai Stock Exchange and Shenzhen Stock Exchange has increased from RMB12.8 billion in 2010 to RMB1,025.7 billion in 2014, and the trading volume has increased from RMB70.8 billion in 2010 to RMB10,625.5 billion in 2014, representing CAGRs of 199.4% and 250.1%, respectively. The following table sets forth the balance of

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margin loans and securities lent and trading volume from margin financing and securities lending from 2010 to 2014.

| | <u>Balance of margin loans and securities lent</u> | <u>Trading volume</u> |
|------------|--|-----------------------|
| | (RMB in billions, except for percentages) | |
| 2010 | 12.8 | 70.8 |
| 2011 | 38.2 | 318.1 |
| 2012 | 89.5 | 904.4 |
| 2013 | 346.5 | 3,866.8 |
| 2014 | 1,025.7 | 10,625.5 |
| CAGR | 199.4% | 250.1% |

Source: Wind Info

Other Capital-based Intermediary Businesses

Since 2011, PRC regulatory authorities have gradually eased the restrictions on the businesses securities firms can conduct and introduced new regulations and rules to encourage and accelerate new products and services, which include numerous capital-based intermediary businesses such as securities repurchase and securities-backed lending. As a result, new businesses have recently become key revenue drivers for PRC securities firms. The securities repurchase was commenced on the Shanghai Stock Exchange and Shenzhen Stock Exchange in October 2011 and January 2013, respectively. As of the end of 2013, with respect to securities repurchase transactions, a total of 18,686 initial transactions had been completed, which amounted to a total of RMB50.4 billion, according to the latest available PRC securities industry report published by SAC. Among them, a total of 10,200 transactions had been repurchased, with an aggregate transaction value of RMB25.9 billion, accounting for 51.3% of the initial transaction value.

In June 2013, the securities-backed lending was commenced on the Shanghai Stock Exchange and Shenzhen Stock Exchange simultaneously. According to the latest available PRC securities industry report published by SAC, as of the end of 2013, the initial loan amount of securities-backed lending reached a total of RMB90.4 billion, of which RMB6.0 billion had been repaid, representing approximately 6.7% of the total loan amount. The initial loan to be repaid amounted to RMB84.6 billion, and the market value of collateral amounted to RMB225.4 billion with average collateral ratio of approximately 266.4%.

Proprietary Trading

The CSRC has gradually broadened the scope of investment for securities firms' proprietary trading business, which permitted them to invest their own funds in financial futures, commodity futures, options, derivative investment products and other non-security financial products, such as bank wealth management products and trust schemes. We believe that the diversity of the proprietary trading business will not only help reduce adverse impact from market fluctuations, but also minimize dependency of the proprietary trading business on the stock market.

COMPETITIVE LANDSCAPE

As of December 31, 2014, there were 119 registered securities firms in China. Competition in the securities industry in China has been and is likely to remain intense while the industry concentration level is relatively low. Moreover, different business segments of the PRC securities industry present a diversified competitive landscape.

INDUSTRY OVERVIEW

Brokerage

Revenue of PRC securities brokerage business primarily depends on securities brokerage commission. According to the latest available PRC securities industry report published by SAC, the market share of the PRC securities brokerage business for the then top five and top ten securities firms increased from 25.3% and 38.6% in 2010, respectively, to 27.0% and 49.1% in 2013, respectively. The brokerage business, a major battlefield for attracting and retaining customers, is still a main source of the revenue for PRC securities firms, although its proportion in the securities firm's total revenue has been gradually eroded by the introduction and expansion of other new businesses. Although more PRC securities firms tend to leverage Internet marketing while reducing its brokerage commission fee, change in business concentration is still limited.

Investment Banking

The PRC investment banking market is relatively concentrated. In recent years, large securities firms experienced a decline in large-scale securities financing and underwriting businesses, although they still enjoyed a competitive edge from more abundant capital resources, more extensive customer base and more advanced IT infrastructure. Regional securities firms, however, enjoy an advantage in providing the SMEs with securities underwriting and financing services through differentiated strategies. According to the latest available PRC securities industry report published by SAC, the concentration of stock and bonds underwritten by PRC securities firms in the PRC capital market was further reduced in 2013, and the top five and top ten securities firms accounted for 37.1% and 53.8% market share, respectively, which decreased by 3.9% and 7.2%, respectively, compared with 2012. Moreover, the bond underwriting market was even more concentrated than the stock underwriting market.

Asset Management

The competition of the asset management business mainly centers on brand recognition, investment research, product innovation, cross-selling capabilities, capital base, pricing and performance. According to the latest available PRC securities industry report published by SAC, the proportion of the total size of the collective wealth management products and the market share of the top five and top ten securities firms decreased year by year.

New Businesses

New businesses in the PRC securities industry include capital-based intermediary products and services, such as margin financing and securities lending, securities repurchase, securities-backed lending and OTC market listing and referral services such as customer cash management and private equity fund management. Among them, the proportion of revenue generated from margin financing and securities lending business experienced the fastest growth. According to the latest available PRC securities industry report published by SAC, the number of PRC securities firms engaged in margin financing and securities lending increased from 25 in 2010 to 84 in 2013, and the proportion of the balance of margin loans and securities lent of top five securities firms decreased from 41.4% in January 2012 to 29.5% at the end of 2013. We expect that the market concentration of margin financing and securities lending will further reduce in the future and continue to be a main area of growth in the securities industry.

Since these new businesses are at an early stage of development, competition is not yet as fierce as the traditional brokerage, investment banking and asset management businesses. However, in the long run, these new businesses will become an important source of revenue for securities firms and

INDUSTRY OVERVIEW

thus, competition will likely intensify. Capital resources and product research and development capability are expected to be the two major factors that will determine the competitive landscape of these businesses.

Our Rankings

According to Wind Info, as of December 31, 2013, there were 23 PRC securities firms with branches in Wuxi, and the top ten securities firms with branches in Wuxi accounted for 93.3% of the market share in terms of agency sale of securities trading volume in Wuxi. Meanwhile, there were 66 PRC securities firms with a business presence in Jiangsu province, and the top ten securities firms with branches in Jiangsu province accounted for 75.7% of the market share in terms of agency sale of securities trading volume in the province. In 2013, we ranked first and third in terms of agency sale of securities trading volume in Wuxi and Jiangsu province, respectively, representing 45.1% and 8.8% of the market share in Wuxi and Jiangsu province, respectively.

The following table sets forth the ranking of the top ten securities firms with branches in Wuxi, in terms of agency sale of securities trading volume and their respective market share in 2013.

| <u>Securities firm with branches in Wuxi</u> | <u>The trading volume of agency sale of securities</u> | <u>Market share</u> | <u>Ranking</u> |
|--|--|-------------------------|----------------|
| | (RMB in millions) | | |
| Guolian Securities | 92,913,717 | 45.10% | 1 |
| Company A | 54,117,011 | 26.27% | 2 |
| Company B | 12,767,224 | 6.20% | 3 |
| Company C | 7,737,773 | 3.76% | 4 |
| Company D | 5,231,233 | 2.54% | 5 |
| Company E | 5,073,201 | 2.46% | 6 |
| Company F | 4,015,327 | 1.95% | 7 |
| Company G | 3,876,705 | 1.88% | 8 |
| Company H | 3,220,265 | 1.56% | 9 |
| Company I | 3,146,739 | 1.53% | 10 |

Source: Wind Info

The following table sets forth the ranking of the top ten securities firms with branches in Jiangsu province, in terms of agency sale of securities trading volume and their respective market share in 2013.

| <u>Securities firm with securities branches in Jiangsu province</u> | <u>The trading volume of agency sale of securities</u> | <u>Market share</u> | <u>Ranking</u> |
|---|--|---------------------|----------------|
| | (RMB in millions) | | |
| Company A | 354,819,122 | 30.78% | 1 |
| Company J | 113,567,576 | 9.85% | 2 |
| Guolian Securities | 101,719,662 | 8.82% | 3 |
| Company F | 57,686,734 | 5.00% | 4 |
| Company D | 50,554,631 | 4.39% | 5 |
| Company I | 45,534,837 | 3.95% | 6 |
| Company B | 43,020,667 | 3.73% | 7 |
| Company K | 37,444,622 | 3.25% | 8 |
| Company L | 37,381,117 | 3.24% | 9 |
| Company M | 31,208,482 | 2.71% | 10 |

Source: Wind Info

INDUSTRY OVERVIEW

In 2014, we ranked 46th among PRC securities firms in terms of net income from agency sales of securities (for brokerage business), according to SAC. Furthermore, according to SAC, in 2014, we ranked in the middle tier of all PRC securities firms in terms of revenue, total assets, net assets and Net Capital. However, we had a comparatively strong position in net profit and cost management capability, which was ranked 40th and 28th among all PRC securities firms, respectively.

DEVELOPMENT TREND OF THE PRC SECURITIES INDUSTRY

With the ongoing reforms of PRC securities laws and regulations, the development of multi-layered capital market and continuous increase of per capita disposable income, we believe the PRC securities industry is undergoing a rapid transformation and has considerable growth prospects. The following are several examples:

Emerging Internet Securities Services

PRC securities firms are actively developing various Internet financial 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 their operating costs. We believe this trend will help enhance customer service capabilities, increase the operating efficiency of securities firms and facilitate the research and development and promotion of products.

Accelerated Product Innovation

Currently, China's capital market provides limited financial products and services. To encourage competition, the CSRC seeks to encourage securities firms to develop and offer more financial products and services, such as margin financing and securities lending, securities repurchase, securities-backed lending, asset management, market-making, individual stock options, structured products, asset-backed securities and interest swaps, among other things. We believe these new businesses and products will diversify the business of PRC securities firms and enhance their profit models.

Gradual Rise in the Securitization Ratio

Because China's securitization ratio is lower than that of more mature international markets, we believe China's securities market will continue to evolve, as its economy grows along with the continuous increase in urbanization rate and per capita disposable income.

Acceleration in Opening of PRC Capital Market

In April 2014, the CSRC and the SFC established mutual stock access between the Shanghai Stock Exchange and the Hong Kong Stock Exchange ("Shanghai-Hong Kong Stock Connect"), which was put into operation in November 2014. It allows qualified investors in one of the two exchanges to trade certain qualified stocks in the other exchange. Shanghai-Hong Kong Stock Connect is an important step in the opening-up of China's capital market and will enhance capital market connectivity between the PRC and Hong Kong, deepen cooperation and communication between the stock markets in Shanghai and Hong Kong, and expand cross-border investment channels.

PRC securities firms also introduced overseas investors to the domestic capital market by providing securities and futures brokerage services and distributing securities firms' wealth management products to QFII and RQFII clients.

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Additionally, PRC securities firms conducted QDII business and other offshore asset management businesses, assisted PRC companies in listing on overseas stock exchanges and issuing offshore RMB bonds, and provided financial advisory services such as acting as financial advisors for cross-border M&A transactions. Benefiting from these favorable industry trends, the cross-border business in the PRC securities industry is expected to further expand.

Differentiated business strategies

As the PRC securities industry matures and copes with intense competition due to similar business models and product and service offerings, PRC 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 different business models and competitive strengths.

Major Driving Forces of the PRC Securities Market

The continuous structural transformation of PRC securities market has brought more opportunities to small- and medium-sized securities firms. With the relaxation in securities regulations and evolution towards a more market-oriented economy, the PRC securities firms will have more incentive for product development to better meet customers' needs. Meanwhile, the increasing securitization ratio will continue to drive the development of the entire PRC securities industry.

New Investment Banking Business Opportunities

In recent years, benefitting from the CSRC's decision to restart its review of IPO applications, the transformation from the existing approval-based system to a registration-based system for equity financing in the PRC A share market, the simplification of approval procedures for M&A transactions involving listed companies and the increase in financing activities in the PRC bond market, the investment banking business will also become one of the key drivers of the PRC securities industry.

REGULATORY ENVIRONMENT

REGULATORY ENVIRONMENT OF THE PRC

Overview

As a securities company, we are subject to the supervision and regulation of the CSRC and other relevant authorities. Our business is subject to PRC laws and regulations 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, among others, laws, regulations, rules and other statutory documents in respect of foreign exchange control, anti-money laundering and taxation.

Major Regulatory Authorities

The business activities of our Group are subject to the supervision and management of the following PRC government authorities:

CSRC

The CSRC is responsible for the supervision and management of the PRC securities market and for maintaining the order thereof, in order to secure its lawful operations in accordance with the laws, regulations and the authorities granted by the State Council. It has set up 36 regional bureaus throughout the country in a number of 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, the major functions of the CSRC include:

- (i) enacting regulations and rules in relation to the supervision and management of the PRC securities market, and to exercise the rights of approval or verification according to law;
- (ii) supervising and managing the issuance, listing, trading, registration, deposit and settlement of securities according to law;
- (iii) supervising and managing 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;
- (iv) enacting qualification standards and practice codes for securities business personnel according to law, and supervising their implementation;
- (v) supervising and examining the disclosure of information in relation to the issuance, listing and trading of securities;
- (vi) regulating and supervising the activities of SAC according to law;
- (vii) investigating and punishing activities in violation of the laws and administrative rules in relation to the supervision and management of the securities market; and
- (viii) performing other duties stipulated in the applicable laws and administrative rules.

SAC

SAC is a self-regulatory organization of the PRC securities industry established under the relevant regulations of the Securities Law and the Administrative Regulations on Registration of Social

REGULATORY ENVIRONMENT

Organizations (《社會團體登記管理條例》) (effective from October 25, 1998). It is a non-profit social organization and a legal entity, and is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC. SAC regulates the PRC securities industry through general meetings of members, which primarily consist of the PRC securities companies. The major duties of SAC include:

- (i) educating and procuring its members to comply with the securities laws and administrative rules;
- (ii) protecting the legal interests of its members and reflecting their proposals and requests to the securities supervision and management authorities;
- (iii) compiling information of securities activities for members' reference;
- (iv) formulating the rules of SAC for members' compliance and organizing training programs and seminars for the practitioners of its members;
- (v) mediating disputes arising from securities business among members or from such business between members and their clients;
- (vi) organizing the study of the development, operation and other matters of the PRC securities industry for its members;
- (vii) monitoring and investigating the conduct of members and take disciplinary actions against the violation of laws, administrative rules or its articles of association in accordance with relevant provisions; and
- (viii) performing other duties stipulated in the articles of association of SAC.

AMAC

AMAC is a self-regulatory organization of the securities investment fund industry as a legal entity. The key responsibilities of AMAC are as follows:

- (i) educating and encouraging its members to comply with the laws and administrative rules governing securities investment and protecting the lawful rights and interests of investors;
- (ii) protecting the lawful rights and interest of its members and submitting their proposals and requests;
- (iii) formulating and implementing self-regulatory rules, supervising and examining the practices of its members and their practitioners and taking disciplinary actions against any violation of the self-regulatory rules and its articles of association in accordance with relevant provisions;
- (iv) formulating practice standards and business rules and organizing qualifying examinations, qualification management and professional training for fund practitioners;
- (v) providing membership services, organizing seminars, promoting innovation and launching propaganda and investor education activities within the industry;
- (vi) mediating disputes arising from fund business between members or from such business between members and their clients;
- (vii) handling the registration and recording of non-publicly offered funds in accordance with the law; and
- (viii) performing other duties stipulated in the articles of association of AMAC.

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PRC Stock Exchanges

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

- (i) providing venues and facilities for the trading of securities;
- (ii) formulating the rules of stock exchanges;
- (iii) accepting applications for, and arranging the listing of, securities;
- (iv) organizing and supervising the trading of securities;
- (v) supervising its members;
- (vi) supervising the listed companies;
- (vii) establishing securities registration and settlement facilities;
- (viii) managing the disclosure of market information; and
- (ix) performing other duties permitted by the CSRC.

Other Authorities

Other authorities primarily include CSDC, China Securities Investor Protection Fund Corporation Limited* (中國證券投資者保護基金有限責任公司) and China Securities Finance.

Industry Entry Requirements

Industry Entry Requirements for Securities Companies

Establishment

The Securities Law and the Regulations on Supervision and Management of Securities Companies (effective from June 1, 2008 and amended on July 29, 2014) stipulates the authorized business scope of the PRC securities companies and establishes industry entry standards and other requirements. The establishment of securities companies shall be approved by the CSRC and business licenses can be obtained subject to the following conditions:

- (i) its articles of association shall comply with the laws and administrative rules of China;
- (ii) the major shareholders shall have sustainable profitability, good reputation and no record of major violation of laws or regulations during the latest three years and shall have net assets of not less than RMB200 million;
- (iii) it shall have the registered capital required by the Securities Law. For a securities company that engages in the securities brokerage, securities investment consultation and financial advisory businesses in relation to securities trading and securities investment, its minimum registered capital shall not be less than RMB50 million; for a securities company that conducts any of the securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall not be less than RMB100 million; for a securities company that engages two or more of the securities underwriting and sponsorship,

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proprietary securities trading, securities asset management and other securities businesses, the minimum registered capital shall not be less than RMB500 million. The registered capital of securities companies must be paid-in capital;

- (iv) its directors, supervisors and senior management must possess the required qualifications while other personnel involved in the securities business must possess proper professional qualifications, and no less than three of the senior management officers shall have served as senior management officers for not less than two years in the securities industry;
- (v) it shall have sound and effective risk management and internal control systems;
- (vi) it must have proper premises and facilities for operation; and
- (vii) other conditions stipulated by laws, administrative rules and the CSRC.

The establishment of our Company and Hua Ying Securities has been approved by the CSRC and each of our Company and Hua Ying Securities has obtained a permission to operate securities business in the PRC.

According to the Judging Standards and Relevant 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 entity or individual, or multiple entities or individuals who are under the control of the same entity or individual, shall not hold shares in more than two securities companies and shall not hold controlling interests in more than one securities company. Any such entity or individual that satisfies any of the following conditions shall not be included in the number of holding shares or controlling interests in securities companies:

- (i) it holds less than 5% (excluding 5%) of the shares of listed securities companies through securities trading on any stock exchange;
- (ii) it controls a securities company via investment relationship, agreement(s) or other arrangement(s), while such securities company holds shares or controlling interests in other securities company in accordance with law;
- (iii) it is a subsidiary which is established by a securities company in accordance with law upon approval of the CSRC and engages in securities business; and
- (iv) other circumstances as identified by the CSRC.

The shareholdings of our Controlling Shareholders in our Company and Hua Ying Securities are in compliance with the above requirements.

The shareholding of foreign shareholders in a foreign-invested securities company is subject to the Rules for Establishment of Foreign-invested Securities Companies, among others:

- (i) the aggregate direct and indirect shareholdings of foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%. At least one of the domestic shareholders shall have a shareholding or an interest in a foreign-invested securities company of not less than 49%. If a domestic securities company converts into a foreign-invested securities company, at least one of the domestic shareholders shall have a shareholding in the foreign-invested securities company of not less than 49%;

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- (ii) foreign investors may hold shares in a listed domestic securities company through legal securities trading on the stock exchanges or by establishing a strategic partnership with a listed domestic securities company and holding their shares subject to the approval of the CSRC. The approved business scope of the listed domestic securities company shall remain unchanged. If the controlling shareholder of a listed domestic securities company is a domestic shareholder, the listed domestic securities company shall be exempted from the shareholding requirement of a single domestic shareholder of not less than 49%. Foreign investors who lawfully hold 5% or more of the shares in a listed domestic securities company through securities trading on stock exchanges or who jointly hold 5% or more of the shares in a listed domestic securities company with others by agreement and other arrangement shall be approved by the CSRC; and
- (iii) the direct holdings and indirect control in the equity interest of a listed PRC-incorporated securities firm by a foreign investor shall not exceed 20%. The direct holdings and indirect control in the equity interest of a listed PRC-incorporated securities firm by all foreign investors shall not exceed 25%.

Upon completion of the Global Offering, the aggregate number of shares directly held and indirectly controlled by all foreign investors in our Company will be approximately 23.267%, which is in compliance with the above requirements.

The Rules for Establishment of Foreign-invested Securities Companies also stipulated the following conditions and procedures of the establishment of foreign-invested securities companies:

- (i) it shall have the registered capital as required by the Securities Law;
- (ii) its shareholders shall have the qualifications as prescribed in the Rules for Establishment of Foreign-invested Securities Companies, and the proportion and the method of capital contribution shall comply with the requirements;
- (iii) it shall have not less than 30 personnel who are qualified to participate in securities business as required by the CSRC and shall have qualified accountants, legal and IT professionals;
- (iv) it shall have sound internal management and risk control systems and separate management systems for organization, personnel, information and business execution in underwriting, brokerage and proprietary trading and other business lines, and have proper internal control systems;
- (v) it shall have the required premises and facilities for operation; and
- (vi) other prudent conditions as stipulated by the CSRC.

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》) (effective from June 17, 2011), if a foreign investor directly or indirectly holds minority shares of an enterprise which invests in a securities company, the indirect shareholding of the foreign investor in a securities company shall not exceed 5%. None of foreign investors indirectly holds more than 5% of shareholding in our Company, which is in compliance with the above requirements.

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Scope of Business

According to the Securities Law, upon approval of the CSRC, a securities company can engage in some or all of the following businesses:

- (i) securities brokerage;
- (ii) securities investment consultation;
- (iii) financial advisory in relation to securities trading and securities investment activities;
- (iv) securities underwriting and sponsorship;
- (v) proprietary securities trading;
- (vi) securities asset management; and
- (vii) other securities businesses.

According to the Tentative Provisions on 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》) (effective from December 1, 2008), securities companies that are under common control of the same entity or under individual 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 is no competition between the companies. The business scope of the securities company is subject to the approval of the CSRC according to the statutory provisions upon its establishment. Unless otherwise provided for by the CSRC, 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 of the business scope while the number of additional types of business to be applied for shall not exceed two at one time. Subject to 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. The businesses of our Company and Hua Ying Securities are in compliance with the above requirements.

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》) (which was issued on January 28, 2014 and made effective immediately), the CSRC cancelled the requirement for the approval of subordinated debt issued by securities companies and the approval for special investment of securities companies.

Material Changes

According to the requirements of the Securities Law and the Regulations on Supervision and Management of Securities Companies, approval from the State Council's securities regulatory authorities shall be obtained for the establishment, acquisition or de-registration of a branch of a securities company, change of the business scope, increase in the registered capital, material adjustment to the equity structure, decrease in the registered capital, change of any shareholder holding more than 5% of the shares or the *de facto* Controlling Shareholder, change of important provisions of the articles of association of a 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.

The branches of securities companies refer to unincorporated entities affiliated to those securities companies, such as subsidiaries or securities branches. The material provisions of the articles of association refer to the provisions by which the following items are stipulated: (i) the name and

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residence of securities companies; (ii) the organization structure and its establishment method, terms of reference and rules of procedure; (iii) the type, amount and approval procedures of investment and guarantees provided by securities companies to external parties; (iv) the cause of dissolution and the method of liquidation of securities companies; and (v) other issues as stipulated in the articles of association of the securities companies required by the State Council's securities regulatory authorities.

According to Guidelines on Documentation of Changes in Shareholders Holding Less Than 5% of Equity Interests by Securities Companies (《證券公司變更持有5%以下股權股東報備工作指引》), if the securities companies change any shareholder holding with less than 5% of equity interests, they must acquire a no-objection letter from relevant securities regulatory authorities.

The CSRC has gradually authorized its local bureaus to review and approve some kind of applications for material changes by securities companies. According to the Decision of the State Council on Cancellation and Adjustment of the Sixth Batch of Administrative Examination and Approval Items (《國務院關於第六批取消和調整行政審批項目的決定》) (effective from September 23, 2012), the CSRC's local bureaus were formally entrusted with the authority of examining and approving the following material changes of the securities companies in October 2012:

- (i) change of material provisions of the articles of association of a company;
- (ii) establishment, acquisition or de-registration of a branch;
- (iii) certain items regarding a change of the registered capital, including the review and approval of the qualification of shareholders or the *de facto* controlling shareholder, or the change of *de facto* controlling shareholder, 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;
- (iv) change of shareholder(s) with more than 5% of shareholdings and the *de facto* controlling shareholder of an unlisted securities company; and
- (v) changes of certain business scopes: 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 asset management and securities underwriting.

Issues such as changes in registered capital and shareholding structure involved in the application of an IPO of overseas listed foreign shares (H shares), the issuance of such shares and listing on the Main Board of the Stock Exchange ("Issuance and Listing") are subject to the approval of the CSRC. On March 4, 2015, we obtained a Reply on the Approval of the Articles of Association of Guolian Securities Co., Ltd. (SZJJGZ(2015)No.[65]) (《關於核准國聯證券股份有限公司章程的批復》(蘇證監機構字[2015][65]號)) issued by the CSRC Jiangsu Bureau for the Articles of Association prepared by us for such issuance and listing.

Establishment of Subsidiaries and Branches

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》) (effective from October 11, 2012) and subject to 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

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shareholders of securities companies stipulated in the Securities Law. However, a securities company and its subsidiaries and subsidiaries under common control of the same securities company shall not operate similar business that have interest conflict or competition. The relationship between us and our subsidiaries are in compliance with the above requirements.

The Supervisory Provisions on Branches of Securities Companies provides that branches shall refer to branches established by the securities companies in the PRC for business operation. Approval from securities regulatory bureaus authorized by the CSRC must be obtained before 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. The de-registration of branches shall not prejudice the interests of the securities companies' clients and the application documents for the de-registration shall be submitted to the securities regulatory bureaus where the branches are located. The establishment of our securities branches has been approved by the CSRC. According to the Supervisory Provisions on Branches of Securities Companies, securities companies shall meet the following requirements in order to establish branches: (i) have sound governance structure and effective internal management, capable of controlling the risks of branches, which have been established or will be established; (ii) risk control indicators have been in compliance with the relevant rules for the most recent year and they will remain in compliance after additional branches are established; (iii) not being subject to administrative or criminal penalties for any material breach of rules or regulations for the most recent two years, no material regulatory measures was imposed for the most recent year, no current investigation for any branch-related activities based on alleged material breach of rules or regulations; (iv) have a secure and stable information technology system, and no material information technology accident had occurred during the most recent year; and (v) existing branches are under good management. The establishment of all our branches has complied with the above requirements.

Industry Entry Requirements for Direct Investment Companies

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:

- (i) investment in equity or debt of enterprises, or in other investment funds associated with equity investment and debt investment with its own funds or via establishment of direct investment funds;
- (ii) providing clients with financial advisory services relating to equity investment and debt investment; and
- (iii) other businesses as approved by the CSRC.

The establishment and business scope of Guolian Capital are in compliance with the above requirements, and we have obtained a no-objection letter to carry out direct investment business stipulated by the CSRC.

Regulation on Operations of Securities Companies

The securities and related business we mainly engage in includes, but not limited to, brokerage (securities brokerage, sales of financial products, futures IB business and securities investment

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advisory services), investment banking, asset management and investment, credit transactions and proprietary trading.

Brokerage

Securities Brokerage

According to the Regulations on Supervision and Management of Securities Companies and the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》) (effective from May 1, 2010):

- (i) a securities company shall establish a sound management system of the securities brokerage business and implement standardized departmental management for the securities brokerage business, in order to prevent conflict of interests between the company and its clients, and earnestly perform its anti-money laundering obligations to prevent any actions which would damage the legal rights of its clients;
- (ii) where a securities company is engaged in the securities brokerage business, it shall objectively state its business qualification, service responsibility and scope; it shall not provide false or misleading information; it shall not carry out its business by means of unfair competition; and it shall not induce any investors without investment intention or risk tolerance to participate in securities trading activities;
- (iii) a securities company shall establish and improve the client management system and client service system of the securities brokerage business, strengthen investor education and protect their legal rights and interests;
- (iv) a securities company shall establish and improve its management system and rational performance appraisal system for securities brokers to incentivize their behaviors;
- (v) a securities company shall establish and improve the management system for its securities branches to ensure their compliant, stable and safe operation;
- (vi) a securities company shall establish and manage comprehensive information systems, with functions such as client account management, client deposits management, proxy trading, proxy clearing and settlement, securities depository, transaction risk monitoring and centralized business data storage;
- (vii) if an employee or a practitioner at a branch of a securities company violates laws, administrative regulations, provisions stipulated by the regulatory agencies and other administrative departments, self regulatory rules or regulations stipulated by securities companies for securities brokerage business, the securities company shall hold the employee or practitioner accountable. The annual compliance report of a securities company shall contain the relevant contents, such as the compliance of securities brokerage business, the main issues identified and internal accountability; and
- (viii) if a securities company or a securities branch violates the Provisions on Strengthening the Management of the Securities Brokerage Business, the CSRC and its local bureaus will take measures, such as regulatory interview, issuance of caution letter, temporarily suspension of license-related approvals, punishment of related personnel, suspension of the 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

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was committed, the securities company or the branch will be transferred to the proper judicial organization for prosecution.

Sales of Financial Products on a Commission Basis

According to the Administrative Provisions on the Agency Sales of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》) (effective from November 12, 2012), a securities company shall assess the eligibility of the client before promoting the financial products, and disclose the information about the third-party financial institution who provides financial products and provide relevant financial product manuals to the clients. The information given on the financial products shall be comprehensive, fair and accurate, so as to fully explain the main features of credit risks, market risks and liquidity risks associated with such financial products. The securities company shall also disclose if there is any related relationship between it and the third-party financial institutions. Employees of a securities company who conduct the distribution of financial products shall have securities practice qualification and comply with administrative provisions on securities practitioners. A securities company shall obtain the relevant qualifications to carry out the distribution of financial products pursuant to the Regulations on Supervision and Management of Securities Companies in order to engage in the sales of financial products on a commission basis.

According to the Administrative Measures on Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》) (effective from June 1, 2013), any entity that engages in fund distribution or related business and receives related commissions based on fund transactions (including opening accounts) from fund distribution entities shall register with the CSRC's local bureau or be identified by the CSRC. Employees participating in the fund distribution business, such as the promoters and maintenance technicians of information management platforms, shall obtain requisite qualification of fund distribution business. Fund distribution entities shall set up a comprehensive management system of fund holder accounts and capital accounts, and an optimal system of fund depository, withdrawal procedures and authorization for fund investors.

Futures IB Business

According to the Provisional Measures on Provision of Intermediary Business to Futures Companies by Securities Companies (《證券公司為期貨公司提供中間介紹業務試行辦法》) (effective from April 20, 2007) and the Decision of the State Council on Cancellation and Adjustment of the Sixth Batch of Administrative Examination and Approval Items, a securities company providing futures IB service to futures companies shall obtain qualifications for futures IB business and operate in a due and cautious manner through standardized departmental management of its futures intermediary business. Securities companies shall only engage in the provision of futures IB service to their wholly-owned or controlling futures companies, or futures companies with which they are under common control of the same entity. The provision of futures IB service to any other futures companies is not allowed. Securities companies and futures companies shall be independent from each other and have separate accounts, staff and places of business. Securities companies shall not carry out futures trading, clearing, settlement or delivery for their clients, and they shall not receive or pay futures deposits for futures companies or clients, to save, withdraw or transfer futures deposits for clients with the securities capital accounts. Securities companies shall employ adequate qualified practitioners. Staff without the relevant futures practitioner qualifications shall not be allowed to participate in the futures intermediary business. Staff participating in the futures intermediary business in securities companies shall not take part in futures trading. Securities companies shall not, directly or indirectly, raise funds or provide guarantees for futures trading clients.

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Securities Investment Advisory Services

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》) (effective from April 1, 1998), a firm that engages in a securities investment consulting business shall obtain necessary qualifications and a business license from the CSRC. Securities investment consulting practitioners shall obtain the relevant qualifications and provide securities investment consulting services under a qualified securities investment consulting institution.

According to the Tentative Provisions on the Securities Investment Advisor Business (《證券投資顧問業務暫行規定》) (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 interest-related parties or other specific clients.

According to the Provisional Measures on the Release of Securities Research Reports (《發佈證券研究報告暫行規定》) (effective from January 1, 2011), when issuing securities research reports, securities companies and securities investment advisory agencies shall abide by laws and administrative regulations, follow the principles of independence, objectiveness, fairness and prudence, effectively prevent conflicts of interest, and treat objects of the reports 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.

Investment Banking

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》) (effective from June 14, 2009), securities companies shall apply for the sponsor qualification from the CSRC in accordance with the regulations, in order to engage in listing and sponsoring business. Sponsoring institutions shall designate an individual, who has obtained the qualification of sponsor representative, to be responsible for sponsorship duties and to discharge their responsibilities. Issuers shall appoint securities companies which have obtained sponsor qualification to perform the sponsor duties for the following matters: IPO and listing, issuance of new shares and convertible corporate bonds by listed companies and other circumstances specifically identified and permitted by the CSRC.

Any securities company applying for the sponsor qualification from the CSRC shall be subject to the following conditions:

- (i) its registered capital shall be no less than RMB100 million and Net Capital not less than RMB50 million;
- (ii) it shall have sound corporate governance and internal control systems, and the indicators of risk control shall be in line with relevant regulations;
- (iii) its sponsor business sector shall have a sound mechanism of business procedures, risk assessment and internal control, its internal structure shall be logical, and proper research capabilities and marketing capabilities are needed to provide necessary support;
- (iv) it shall have a reputable sponsor business team with reasonable professional structure, the number of professionals shall not be less than 35, among which, the number of personnel who have been engaging in sponsor-related business in the last three years shall not be less than 20;

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- (v) the number of its professionals who meet the qualification of sponsor representative shall not be less than four;
- (vi) it has not received any administrative penalties due to major violation of laws and regulations over the last three years; and
- (vii) it shall meet all other requirements of the CSRC.

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

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》) (effective from November 30, 2013) 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 issuance process, which specified if major violations occurred in information disclosure of the issuers, which results in significant losses to investors, the issuers and the relevant intermediaries must compensate investors' losses in accordance with law.

Asset Management and Investment

Asset Management

In accordance with the Administrative Measures on Client Asset Management Business of Securities Companies (《證券公司客戶資產管理業務管理辦法》) (effective from June 26, 2013), the Implementation Rules for the Targeted Asset Management Business of Securities Companies, the Implementation Rules of the Collective Asset Management Business of Securities Companies and the Notice in relation to Strengthening the 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》) (effective from March 14, 2013), securities companies engaged in client asset management shall comply with the relevant conditions and shall apply to the CSRC for the qualification of engaging in client asset management business. Securities companies may undertake targeted asset management businesses for individual clients, collective asset management businesses for multiple clients and specialized asset management businesses for clients with specific purposes.

The Administrative Regulations on Asset Securitization of Securities Companies and Subsidiaries of Fund Management Companies (《證券公司及基金管理公司子公司資產證券化業務管理規定》) (effective from November 19, 2014) allows securities companies and subsidiaries of fund management companies to conduct asset securitization business by the establishment of special purpose entities. Special purpose entities refer to asset-backed specialized schemes established by securities companies or subsidiaries of fund management companies for conducting asset securitization business or other special purpose entities accepted by the CSRC.

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Investment

Pursuant to the Provisions of the Rules for Direct Investment Business of Securities Companies, securities companies engaged 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 the relevant laws and regulations as well as the requirements of SAC. Securities companies shall not conduct direct investment business in any other form. A direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies, among other things, its investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy. A direct investment subsidiary and its affiliates may also set up and manage direct investment funds, including equity funds, debts investment funds, venture capital funds, buyout funds, mezzanine funds, as well as other direct investment funds targeted by the aforesaid funds.

Credit Transactions

Margin Financing and Securities Lending

According to the Administrative 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》) (amended on October 26, 2011), securities companies engaged in margin financing and securities lending businesses shall open accounts in their own names at securities registrars, such as specialized securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities companies shall also open accounts at commercial banks, including 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 provided by securities companies to their clients are limited to those in the specialized margin financing account and the securities provided by securities companies to their clients are limited to those in the specialized securities lending account.

According to the Administrative Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》) (amended on October 26, 2011), securities companies that apply for the qualification of engaging in margin financing and securities lending shall meet the following conditions and submit the relevant documentation to the CSRC's local bureaus where it is registered for filing:

- (i) have a minimum operating history of three years in the securities brokerage business;
- (ii) have a sound system of corporate governance and effective internal control system in place that enable the securities company to identify, control and prevent any potential operational risks and internal management risks;
- (iii) the securities companies and their respective directors, supervisors and senior management shall not have been subject to any administrative and criminal penalties for any violation of relevant laws and regulations in their operation during the past two years, and may not be subject to any investigation or rectification, orders by the CSRC for any regulatory non-compliance;
- (iv) have a sound financial position, with each of their risk control indicators in compliance with the relevant requirements for the most recent two years and their registered capital

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and Net Capital are also in compliance with the requirements subsequent to the commencement of conducting the margin financing and securities lending business;

- (v) clients' assets remain secure and intact with effective measures in place for clients' third-party fund depository, and clients' particulars remain true and intact;
- (vi) establishment of a comprehensive compliance-feedback mechanism that ensures the timely and due solution to any disputes with clients;
- (vii) maintain a stable information security system, experienced no material incidents during the past year due to any management issues, and the systems designed for margin financing and securities lending business have been approved by applicable stock exchanges and securities registration and settlement institutions;
- (viii) have an appropriate number of senior management and professionals who are responsible for the margin financing and securities lending business, and the proposals and internal control system have been approved and accredited by SAC; and
- (ix) any other conditions as stipulated by the CSRC.

Securities companies that have obtained the approval shall apply for the change of its business scope with the company registration authorities and apply for renewing the Permit for Business Operations of Securities Business (《經營證券業務許可證》) with the CSRC. Upon obtaining the renewed Permit for Business Operations of Securities Business, such securities companies may carry out margin financing and securities lending business.

According to the Decision of the CSRC on Amending the Measures for the Administration of Pilot Operation of Margin Trading and Short Selling by Securities Companies (《關於修改〈證券公司融資融券業務試點管理辦法〉的決定》) (effective from October 26, 2011), a securities company shall not provide margin financing and securities lending services to the following types of clients: those who have not provided requisite information, have engaged in securities trading for less than six months at the securities company or other security companies controlled by or controlling such securities company, have not deposited transaction settlement funds into third-party depository institutions, lack of experiences in securities investment or ability to bear risk, or have the records of seriously breaching contract, or are the company's shareholders and affiliated parties. Furthermore, according to the Measures for the Administration of the Margin Trading and Short Selling Business of Securities Companies (《證券公司融資融券業務管理辦法》) (amended on October 26, 2011), once a security company or any of its branches is found to have violated the provisions regarding margin trading and short selling, the CSRC's relevant counterparts may order it to cease the violation and to rectify the non-compliance within a specified time limit. If the securities company is unable to timely rectify the non-compliance or the violation is very serious, the CSRC may, as the case may be, give warnings, issue public warnings, take disciplinary action on responsible personnel, suspend the margin trading and short selling business of counterparts, revoke the qualification or take other appropriate regulatory measures.

According to the Provisional Measures on the Supervision and Management of Refinancing Business (《轉融通業務監督管理試行辦法》) (issued on October 26, 2011 and with immediate effect), the CSRC regulates the refinancing business in various aspects, including securities financing companies, the rules on refinancing business, sources of capital and securities, deposal of interests and providing supervision and management.

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On November 25, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange promulgated the Implementation Rules of Shanghai Stock Exchange on Margin Financing and Securities Lending (《上海證券交易所融資融券交易實施細則》) and the Implementation Rules on Shenzhen Stock Exchange on Margin Financing and Securities Lending (《深圳證券交易所融資融券交易實施細則》), which specify the procedures for conducting margin financing and securities lending business and the underlying securities on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Securities-backed Lending

According to the Measures on Securities-Backed Lending and Registration and Settlement Business (Provisional) (《股票質押式回購交易及登記結算業務辦法(試行)》) jointly promulgated by China Securities Depository and Clearing Co., Ltd and the Shanghai Stock Exchange and the Shenzhen Stock Exchange on May 24, 2013, the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall implement the trading permissions management of securities companies that participate in securities-backed lending. Securities companies shall establish qualification examination system and perform due diligence with respect to the finance parties. Examination contents shall include asset scale, credit status, risk tolerance and cognition of securities market. We have obtained trading permissions to engage in securities-backed lending from the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Securities Repurchase

According to the Measures on Securities Repurchase and Registration and Settlement Business (Provisional) (《約定購回式證券交易及登記結算業務辦法(試行)》) jointly promulgated by China Securities Depository and Clearing Co., Ltd and the Shanghai Stock Exchange and the Shenzhen Stock Exchange on December 10, 2012, the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall implement the trading permissions management of securities companies that participate in securities repurchase. Securities companies shall establish client qualification examination system. Examination contents shall include time of opening account asset scale, credit status, risk tolerance and cognition of securities market. We have obtained trading permissions to engage in securities repurchase from the Shanghai Stock Exchange and the Shenzhen Stock Exchange, respectively.

Proprietary Trading

The Regulations on Supervision and Management of Securities Companies and the Guidelines on Proprietary Business of Securities Companies (《證券公司證券自營業務指引》) (effective from November 23, 2005) stipulate that securities companies engaged 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 State Council. A securities company engaged in proprietary securities trading business shall be registered under the name of the proprietary securities account holder. The securities company shall conduct its proprietary trading business in its own name by specialized proprietary seats. The proprietary accounts shall not be managed by proprietary trading department, including opening account, closing account and use of registration. Risk control indicators, such as the proportion of the total value of proprietary securities to the Net Capital of the securities 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 each comply with the requirements of the CSRC.

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The securities companies shall establish and improve investment decision-making and authorization mechanism with relative centralization and unification of rights and responsibilities. In principle, the decision-making procedures of proprietary trading business shall be established on three progressive levels: board of directors, investment decision committee and proprietary trading business department.

The proprietary trading business department of securities companies is responsible for the management and operation of the proprietary trading business, and other business departments and branches shall not develop proprietary business in any form.

In accordance with the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》), the securities companies engaged in proprietary securities trading business are permitted to trade the following securities:

- (i) securities that have been or may be legally listed, traded and transferred on a domestic stock exchange;
- (ii) securities that have been listed and transferred on the NEEQ;
- (iii) private placement bonds that have been or may be legally listed and transferred on qualified regional equity trading markets, and stocks that have been listed and transferred on qualified regional equity trading markets;
- (iv) securities that have been or may be legally traded on the domestic interbank market; and
- (v) securities issued with the approval of the national financial regulatory authority or its authorized bodies or after filing with the national financial regulatory authority or its authorized bodies and traded over the counter at domestic financial institutions.

For all of the business qualifications we obtained in accordance with the above laws and regulations, please refer to the section headed “Business” in the prospectus.

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

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, the Securities Law, the Regulations on Supervision and Management of Securities Companies, the Rules for Governance of Securities Companies (《證券公司治理準則》) (effective from January 1, 2013), the Guidance for the Internal Control of Securities Companies (《證券公司內部控制指引》) and the Notice on the Preparation for Internal Control Evaluation of Securities Companies (《關於做好證券公司內部控制評審工作的通知》).

Securities companies should establish and improve their corporate governance structure, which include scientific decision-making 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.

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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 such 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》) (effective from October 19, 2012) specify the regulations on the qualifications of directors, supervisors, senior management and persons in charge of branches. Each of them shall obtain approval from the securities regulatory authorities to hold the post before taking office.

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》) (effective from December 1, 2008), a securities company shall prepare financial statements of its Net 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 stipulate warning ratios and minimum regulatory standards 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 level of risk capital reserves of a particular business according to the governance structure and the internal control and risk control of the securities companies.

In accordance with the Provisions for the Comprehensive 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 comprehensive risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risk and operating risks, to accurately identify, prudently evaluate, timely respond and fully manage such risks, and shall establish and improve a comprehensive 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, in order to meet its liquidity needs on time and at a reasonable cost.

The Regulations on Risk Handling of Securities Companies (《證券公司風險處置條例》) provide that State Council's securities regulatory authority is responsible for the organization, coordination and supervision of the risk handling of securities companies. In circumstances where the risk indicators of a securities company do not comply with the regulations, or material risk arises, the risk handling measures include temporary closure for rectification, third-party custody, takeover, administrative reorganization, bankruptcy, liquidation and restructuring.

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The Securities Law stipulates certain requirements for the risk control system of securities companies. The Investor Protection Fund shall be set up by the PRC government. A securities company shall make provision for trading risk from the annual profits (after tax) to cover the loss of securities trading. It shall establish and enhance its internal control system and adopt effective isolation measures to prevent conflicts of interest between the company and its clients and among different clients. Its securities brokerage business, securities underwriting business, proprietary securities business and asset management business shall be independent from one another, while mixed operations shall be prohibited. The transaction settlement for the clients of the securities company. The transaction settlement funds of its clients shall be deposited in commercial banks and a separate account shall be opened and managed for each of client. It shall not categorize the transaction settlement funds or securities of the clients as its own property, and misappropriation of the transaction settlement funds or securities of clients by any unit or person through any means shall be prohibited.

According to the Regulation of China Securities Regulatory Commission in Relation to the Calculation Basis for the Risk Capital Reserve of Securities Companies (《中國證券監督管理委員會關於證券公司風險資本準備計算標準的規定》) (effective from November 16, 2012), risk capital reserves of different businesses of securities companies are as follows:

- (i) for securities companies which are engaged in securities brokerage business, the risk capital reserve of securities brokerage shall be calculated at 2% of the aggregate amount of the transaction funds entrusted by clients;
- (ii) for securities companies which are engaged in proprietary trading, the risk capital reserves of securities derivatives, equity securities and fixed-income securities which have not been hedged shall be calculated at 20%, 15% and 8% of the investment scale, respectively, and the risk capital reserves of securities derivatives, equity securities and fixed-income securities which have been hedged shall be calculated at 5% of the investment scale;

The scale of stock index futures shall be calculated at 15% of the total value of stock index futures contracts, and the scale of interest swap investment shall be calculated at 3% of the total nominal principal of interest swap contracts;
- (iii) for securities companies that are engaged in underwriting business, the risk capital reserve shall be calculated at 30%, 15%, 8%, 4% of the amounts of underwriting shares of refinancing projects, shares of IPO projects, corporate bonds and government bonds, respectively;
- (iv) for securities companies that are engaged in asset management business, the risk capital reserve of asset management business shall be calculated at 2%, 2%, 1%, 1% of the scale of specialized, collective, restrictive and targeted asset management business, respectively;
- (v) for securities companies that are engaged in margin financing and securities lending business, the risk capital reserve of margin financing and securities lending shall be calculated at 5% and 10% of the scale of margin financing and securities lending with respect to the clients, respectively;
- (vi) for securities companies that have set up branches such as branch offices and securities branches, the risk capital reserve shall be calculated at RMB20 million and RMB3 million with respect to each branch office and securities branch, respectively; and
- (vii) the risk capital reserve of operations shall be calculated at 10% of the operating expenses of the previous year.

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The Regulation of China Securities Regulatory Commission in Relation to the Calculation Basis for the Risk Capital Reserve of Securities Companies sets up different calculating proportions of the risk capital reserve for different types of securities companies. For companies that are categorized as A, the relevant risk capital reserves of the above items (i) to (v) shall be calculated at 0.3 times of the standard calculation basis, and the relevant risk capital reserves of the above item (vi) and item (vii) shall be calculated in accordance with the standard calculation basis mentioned above.

Classified Regulation

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》) (effective from May 14, 2010), the benchmark score of a securities company under normal operation is 100. The regulatory points of securities companies shall be determined through adding to, or deducting from, the benchmark score by taking into account, inter alia, the assessment indicators and standards of their risk management capabilities, market competitiveness and continued compliance. The CSRC typically considers six criteria when evaluating, on an annual basis, a securities company's risk management capability, including capital adequacy, corporate governance and compliance management, dynamic risk monitoring, IT system security, customer rights protection and information disclosure. Based on different circumstances, as to one event, regulatory points could be deducted by points within a range between 0.5 and 10 points or added by points within a range between 0.5 and 5 points. The CSRC classifies the securities companies into five classes and 11 categories: A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E according to these regulatory points and a particular securities firm's ranking in terms of regulatory points among its peers. There is no standard regulatory points for each rating category. According to the principle of the classified regulation, the CSRC sets up different standards on risk control indicators and calculating proportions for different types of securities companies, and treat them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections. The classification results of securities companies shall be deemed as prudential conditions for the companies' applications for the expansion of certain types of business, such as the private placement bond underwriting business, which requires a securities company to maintain a regulatory rating of "B" or higher for the most recent year, the establishment of new branches, the issuance of securities and the listing on stock exchanges. The classification of a securities company shall also be the basis for determining the scope of pilot runs and promotion sequence for new businesses and products that are designated by the CSRC to be tentatively available to the PRC securities industry, which means that the CSRC will consider a securities company's regulatory points in determining whether and when it may participate in such pilot runs of new businesses and products. In addition, according to the Supplemental Regulation on Further Improving Securities Companies' Stock Investors Protection Fund (《關於進一步完善證券公司投資者保護基金有關事項的補充規定》) issued by the CSRC, with respect to the securities investor protection fund that PRC securities companies are required to contribute funds to in order to conduct their businesses, securities companies with different regulatory ratings (from D to AAA) are required to pay different percentages of their revenue, which range from 0.5% to 5.0%, to the securities investor protection fund, subject to the scale of the fund.

Corporate Governance and Risk Control of Direct Investment Company

Corporate Governance

Pursuant to the Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies, the management and staff of a direct investment subsidiary shall only hold for one position and not receive remuneration from a securities company. Management and professionals

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of the securities company who do not take part in investment banking or external experts may also serve as the directors (including chairman of the board), supervisors (including chairman of the supervisory committee) and members of the investment decision committee. At least half of the members of the investment decision committee shall come from the direct investment subsidiary and no more than one-third of the members shall come from the securities company. Members of the investment decision committee who come from the securities company shall be limited to staff responsible for risk control, compliance management and audit, and shall not be management and professionals who take part in investment banking. The securities company and direct investment subsidiary shall establish an internal control system for staff of the securities company who also serve as the directors (including chairman of the board), supervisors (including chairman of the supervisory committee) and members of the investment committee to tackle any possible conflict of interests.

Risk Control

Pursuant to the Circular on Promoting Standardized Development of Equity Investment Enterprises (《關於促進股權投資企業規範發展的通知》) (effective from November 23, 2011), the usage of funds of an equity investment enterprise shall comply with the provisions of the articles of association or the partnership agreement of such equity investment enterprise. The investments shall be diversified properly to lower investment risks. Equity investment enterprises shall not provide guarantees for enterprises other than their respective investees. When investing in a related party, an equity investment enterprise shall adopt a voting mechanism that requires the related party to abstain from voting on such investment decision and such mechanism shall be stipulated in the articles of association, partnership agreement, entrusted management agreement or entrusted custody agreement of the equity investment enterprise. The standard of related parties shall be stipulated in the articles of association, partnership agreement, entrusted management agreement or entrusted custody agreement of the equity investment enterprises by the equity investment enterprises in accordance with the relevant laws and regulations.

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》), as amended by 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 SAFE, while capital account items are subject to approval.

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

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obtained from the relevant foreign exchange administrative authority, other than where no approval is required under the relevant provisions of the state. PRC enterprises (including foreign-invested enterprises) that 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, based on valid receipts and proof of transactions. Foreign-invested enterprises that 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, based on 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 any of its relevant branches.

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》) (effective from January 28, 2013) issued by SAFE provides that:

- (i) SAFE and its branch (hereinafter referred to as “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;
- (ii) 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;
- (iii) 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 the prospectus or other disclosure documents, such as the offering document for corporate bonds, 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;
- (iv) 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. Specially, the portion previously within the amount of the proprietary foreign exchange of the domestic company and the interest thereon shall be transferred back to its domestic foreign exchange account from which the funds are

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previously transferred, while the portion previously within the amount of purchased foreign exchanges and the interest thereon may be settled;

- (v) 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. The portion previously within the amount of the proprietary foreign exchange of the domestic company and the interest thereon shall be transferred back to its domestic foreign exchange account from which the funds are previously transferred, while the portion previously within the amount of purchased foreign exchanges and the interest thereon may be settled; and
- (vi) income on the capital account item from the 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 a decrease in shareholding within two years after the date of receiving such income.

The Decision of the State Council on Cancellation and Adjustment of a Batch of Administrative Examination and Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) (effective from October 23, 2014) cancelled administrative approval from SAFE and its branches on the capital settlement of overseas listed onshore enterprises for their funds raised through overseas listing.

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》) (effective from June 30, 2010) further regulates the information disclosure on regular reports and *ad hoc* reports by listed securities companies and require the 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.

According to the Rules on the Content and Format of Annual Reports of Securities Companies (《證券公司年度報告內容與格式準則》) (effective from January 1, 2014), securities companies established upon approval shall prepare their annual reports in accordance with the requirements therein, and submit the same to the CSRC within four months after the end of each accounting year. In addition to the implementation under these rules, publicly-listed securities companies shall also prepare and disclose their annual reports under the relevant rules on information disclosure of publicly-listed securities companies. Unlisted companies shall also prepare and disclose information to the public under the requirements of Chapter IV of these rules.

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Our Company, our Directors and senior management undertake that after the Listing, we will strictly abide by the provisions of the relevant laws and regulations on information disclosure and perform our obligations of information disclosure, and by taking account into the characteristics of securities companies, fully disclose the clients asset protection status and related risk and internal control associated with such characteristics, risk management, corporate compliance review and business development and other information in our Company's periodic reports, and will take further effective measures to strengthen risk disclosure and risk education to investors.

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》) (effective from January 1, 2007) promulgated by the PBOC, 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》) (effective from August 1, 2007) jointly promulgated by the PBOC, the CBRC, the CSRC and the CIRC.

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》) (issued on September 1, 2010 and effective from October 1, 2010) sets out 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 operations. Securities and futures entities shall also establish and enhance internal control systems for anti-money laundering. The CSRC shall fulfill its anti-money laundering obligations in collaboration with the administrative department of anti-money laundering under the State Council in accordance with the applicable PRC laws, formulate rules and regulations of anti-money laundering for the securities industry, and organize, coordinate and guide the anti-money laundering efforts of securities companies and fund management companies. The CSRC's local bureaus shall fulfill its anti-money laundering obligations within their jurisdictions in accordance with the above-mentioned measures.

Financial Action Task Force on Money Laundering (FATF)

The FATF is an inter-governmental body established in 1989 with the objective of setting standards and promoting 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 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 54th 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,

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the convention has been ratified by 186 parties, including the PRC government which ratified this convention on February 28, 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 175 parties. The PRC government ratified this convention on October 27, 2005, with reservation on paragraph 2 of Article 66.

Regulatory and Shareholders Approvals for a Proposed Listing

Pursuant to the Securities Law, when a company intends to offer shares for subscription and list its shares on an overseas stock exchange, it shall obtain prior approval of the CSRC.

In addition, our existing articles of association also provides that the Global Offering plan shall be reviewed and approved by our Shareholders. We have acquired all the necessary regulatory and internal approvals for the Global Offering and Listing. Please see “Appendix VI—Statutory and General Information” for more details. In particular, we have obtained our Shareholders’ approval and the CSRC’s approval for the Global Offering and Listing on January 5, 2015 and May 26, 2015, respectively.

HISTORY AND CORPORATE STRUCTURE

HISTORY OF THE COMPANY

The history of our Company traces back to November 1992 when, upon approval from the PBOC, Wuxi Securities Company* (無錫市證券公司), our Company's predecessor, was established in the PRC as an enterprise owned by the whole people (全民所有制企業) with a registered capital of RMB32 million contributed in cash by 16 Shareholders, including certain government departments and state-owned enterprises in Wuxi.

On January 8, 1999, our Company was converted into a limited liability company, and was renamed as Wuxi Securities Co., Ltd.* (無錫證券有限責任公司).

On January 29, 2002, our Company was renamed as Guolian Securities Co., Ltd.* (國聯證券有限責任公司).

On May 26, 2008, upon approval from the CSRC and upon registration with Wuxi AIC, Guolian Securities Co., Ltd.* (國聯證券有限責任公司) was converted into a joint stock company with limited liability, and was renamed as Guolian Securities Co., Ltd. (國聯證券股份有限公司) with 12 promoters, namely, Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental, and seven other Shareholders. For details, please see “—Information of Existing Shareholders” below.

We provide diversified financial products and services and primarily focus on brokerage, investment banking, asset management and investment, credit transactions and proprietary trading businesses. For further details on the principal businesses of our Group, please see “Business—Our Business” in this prospectus.

MAJOR INCREASES IN SHARE CAPITAL

Since our inception, we have undergone certain changes in our registered and paid-up capital, along with changes in equity holding as a result of subscription of registered capital and/or transfers of equity interest as set out below:

- On January 8, 1999, upon approval from the CSRC and upon registration with Wuxi AIC, the registered capital of our Company was increased from RMB32 million to RMB50 million. According to a registered capital verification report issued by an Independent Third Party auditor, as of December 31, 1997, 100% of the increased registered capital had been paid up;
- On January 29, 2002, upon approval from the CSRC and upon registration with Wuxi AIC, the registered capital of our Company was further increased from RMB50 million to RMB1 billion, of which RMB116.5 million was contributed by way of capitalizing our capital reserves, surplus reserves and undistributed profit, RMB251.36 million was contributed by way of audited assets in the form of securities investment and the rest was contributed in cash. According to a registered capital verification report issued by an Independent Third Party auditor, as of January 10, 2002, apart from certain properties to be contributed by Guolian Trust, the remainder of the increased registered capital had been paid up on time;

The above-mentioned properties to be contributed by Guolian Trust consisted of a building and a parcel of land. Although the titles of such properties were not transferred to us within the time frame as required under relevant PRC laws and regulations, we have

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occupied, used and benefited from such properties in the past, and as of the Latest Practicable Date, the relevant building ownership and land use right had been transferred to us. As advised by our PRC legal advisor, Jingtian & Gongcheng, we will not be penalized by the relevant PRC government authorities or otherwise be liable for the delay in transferring the title of such building and parcel of land to us; and

- On May 26, 2008, our Company was converted from a limited liability company to a joint stock limited liability company with an audited net asset value of RMB1,922,372,534.08 as of September 30, 2007, and our Company issued 1,500,000,000 Domestic Shares, nominal value of RMB1.00 each, as the total share capital of our Company. The registered capital of our Company was accordingly increased from RMB1 billion to RMB1.5 billion. As such, RMB1.5 billion of our audited net asset value was recorded as our paid-in capital and the remaining RMB422,372,534.08 was recorded as our capital reserves.

In addition, during the early stage of our Company from 1992 to 2002, there were certain changes in the registered/paid-up capital of our Company, as well as transfers of equity interests in our Company by the then shareholders (collectively, the “Early Historical Changes”). However, we did not go through certain procedures to obtain the approvals from competent government authorities for such Early Historical Changes, and/or registered the same with relevant government authorities. Following these Early Historical Changes and after inspection by the relevant competent government authorities, such government authorities had officially confirmed the ownership and shareholding structure of our Company were valid and effective at the relevant time. Based on such confirmations, our PRC legal advisor, Jingtian & Gongcheng, is of the view that the shareholding structures of our Company are valid and effective.

OUR BUSINESS MILESTONES

Set out below is a list of key milestones in the founding and development of our Group.

- | | |
|-------------|---|
| 1992 | <ul style="list-style-type: none">● obtained the PBOC’s approval for the establishment of the predecessor of our Company, Wuxi Securities Company* (無錫市證券公司), in September 1992 and license for financial business in November 1992● established the predecessor of our Company, Wuxi Securities Company* (無錫市證券公司), with a registered capital of RMB32 million in November 1992 |
| 1994 | <ul style="list-style-type: none">● ranked 50th in the securities industry of “China’s Top Service Enterprises of 1994 (1994年中華人民共和國最大服務業企業證券業第50位)” by the Development Research Center of the State Council and ten other government departments in 1994 |
| 1999 | <ul style="list-style-type: none">● converted into a limited liability company and renamed as Wuxi Securities Co., Ltd.* (無錫證券有限責任公司) with the registered capital increased to RMB50 million in January 1999 |
| 2001 | <ul style="list-style-type: none">● obtained the qualifications to conduct foreign share brokerage business in September 2001 |
| 2002 | <ul style="list-style-type: none">● renamed as Guolian Securities Co., Ltd.* (國聯證券有限責任公司) with the registered capital increased to RMB1 billion in January 2002● obtained qualifications for online securities trust business in March 2002● obtained qualifications for entrusted investment management business in July 2002● obtained qualifications to act as a leading underwriter for A shares in October 2002 |

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- obtained qualifications to conduct national inter-bank lending business in October 2002
- entrusted to operate the outlets of Zhenjiang Trust Investment Company* (鎮江市信託投資公司) in October 2002
- 2003**
 - set up securities branches in Beijing, Nanjing, Guangzhou and Hangzhou in the second quarter of 2003
- 2004**
 - obtained qualifications for agency sales business for open-end securities investing funds (開放式證券投資基金代銷) in June 2004
- 2005**
 - established a securities centralized trading system among all our securities branches in November 2005
 - recognized as one of the securities companies rated “standard” (規範類證券公司) by SAC in November 2005
- 2007**
 - recognized as one of the securities companies rated “innovated” (創新類證券公司) by SAC in July 2007
 - approved to acquire two outlets of Zhenjiang Trust Investment Company* (鎮江市信託投資公司) in September 2007
- 2008**
 - converted into a joint stock company with limited liability and with registered capital increased to RMB1.5 billion in May 2008
- 2009**
 - approved to participate in the pilot program on direct investment in December 2009
 - obtained pre-qualifications as a chief agency broker on the NEEQ in December 2009
- 2010**
 - established Guolian Capital, one of our subsidiaries, in January 2010
 - officially launched our first collective asset management scheme, “Zengqiang Bond Collective Asset Management Scheme—Guolian Jinrui No. 1,” in February 2010
 - obtained approval to establish five securities branches in cities including Yantai in July 2010
- 2011**
 - obtained qualifications as a chief agency broker on the NEEQ in January 2011
 - obtained approval to establish five securities branches in cities including Beijing in February 2011
 - established Hua Ying Securities, one of our subsidiaries, in April 2011
- 2012**
 - obtained qualifications to conduct margin financing and securities lending business in May 2012
- 2013**
 - obtained approval to establish one branch office in Yixing in January 2013
 - obtained qualifications to participate in refinancing business in January 2013
 - obtained trading permissions to conduct agency sales of financial products in January 2013
 - obtained the “Best Award for the Year of the Sixth China Private Equity Fund Conference” in March 2013
 - obtained trading permissions to conduct repurchase business on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in March 2013 and April 2013, respectively

HISTORY AND CORPORATE STRUCTURE

- obtained approval to establish 10 “light branches”⁽¹⁾ within Wuxi in June 2013
 - obtained trading permissions to conduct securities-backed lending business on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in July 2013
 - obtained qualifications to provide digital certificate agency service from the CSDC in October 2013
 - obtained qualifications to provide securities pledge registration agency business in November 2013
 - obtained approval to establish three branch offices in Beijing, Shanghai and Jiangyin and six “light branches” in cities including Wuxi, Chengdu and Dalian in November 2013
- 2014**
- obtained permissions to trade on eligible securities listed on the Stock Exchange through Shanghai–Hong Kong Stock Connect in October 2014
 - obtained “The Best Innovative Award” and “The Best Marketing Award” of the third “Financial Industry Innovation and Development Summit: Mobile Internet and New Financial Ecology” in December 2014

Note:

- (1) “Light branches” refer to securities branches which are not equipped with on-site IT system, do not offer on-site trading services, require fewer on-site staff and focus more on client coverage for enhanced operating efficiency. Such securities branch is usually less than 300 sq.m. in size and requires less than RMB1.0 million in set-up cost.

MAJOR ACQUISITIONS AND DISPOSALS

Capital Contribution into and Disposal of Guolian Futures

Guolian Futures was established in the PRC on April 30, 1993 and is mainly engaged in commodity futures brokerage and financial futures brokerage. It was owned as to 66.670% by Guolian Group and 33.330% by Wuxi Guolian Infrastructure Investment Co., Ltd.* (無錫國聯基礎設施投資有限責任公司, “Guolian Infrastructure”), an indirect wholly-owned subsidiary of Guolian Group, immediately before our subscription set out below.

Pursuant to the resolution of shareholders’ meeting passed by Guolian Futures on April 18, 2007, and the approval issued by the CSRC on July 26, 2007, the registered capital of Guolian Futures was increased from RMB30 million to RMB120 million, and our Company subscribed for and contributed RMB85.2 million of the increased registered capital, the remaining RMB4.8 million was contributed by Wuxi Guolian Material Investment Co., Ltd.* (無錫市國聯物資投資有限公司, “Guolian Material”), an indirect wholly-owned subsidiary of Guolian Group. According to a registered capital verification report issued by an Independent Third Party auditor, as at August 3, 2007, the increased registered capital had been fully paid up. Upon completion of registration of the above changes with Jiangsu AIC on August 29, 2007, Guolian Futures was owned as to 71.000% by our Company, 16.670% by Guolian Group, 8.330% by Guolian Infrastructure and 4.000% by Guolian Material, respectively.

In November 2010, due to an internal restructuring of Guolian Group, our Company entered into an equity transfer agreement with Guolian Infrastructure, pursuant to which Guolian Infrastructure transferred its 8.330% equity interest in Guolian Futures to our Company for a consideration of RMB13,059,900, which was determined based on the net asset value of Guolian Futures as of August 31, 2010 as evaluated by an Independent Third Party appraiser. The foregoing acquisition of equity interest in Guolian Futures was approved by the SASAC on November 15, 2010, and approved by the CSRC on April 13, 2011, and the said consideration was fully settled on May 6, 2011.

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On November 24, 2010, our Company, Guolian Group and Guolian Material entered into an agreement pursuant to which the registered capital of Guolian Futures was increased from RMB120 million to RMB200 million, and each of our Company and Guolian Material subscribed for and contributed RMB76.80 million and RMB3.20 million of the increased registered capital at cash subscription price of approximately RMB100.30 million (of which the premium part in the amount of approximately RMB23.50 million was recorded as capital reserves) and RMB4.18 million (of which the premium part in the amount of approximately RMB0.98 million was recorded as capital reserves), respectively. Such subscription price was determined with reference to the net asset value of Guolian Futures as at August 31, 2010 as evaluated by an Independent Third Party appraiser. The aforesaid increase in registered capital of Guolian Futures was approved by the CSRC on April 13, 2011 and according to a registered capital verification report issued by an Independent Third Party auditor, as at May 6, 2011, the increased registered capital had been fully paid up. Upon completion of registration with Jiangsu AIC of the foregoing share transfer and increase in registered capital on May 23, 2011, the equity interest of our Company in Guolian Futures increased to 86.000%, and the remaining 14.000% equity interest of Guolian Futures was held as to 10.000% by Guolian Group and 4.000% by Guolian Material.

As (i) at the relevant time, our Company was in need of working capital to improve our net capital status required for the development of certain other business activities, such as margin financing and securities lending; and (ii) our Group intended to focus more on the growth of securities related business activities, on June 17, 2013, we entered into an equity transfer agreement with Guolian Group, pursuant to which we transferred our entire 86.000% equity interest in Guolian Futures to Guolian Group, one of our Controlling Shareholders, for a consideration of approximately RMB224.02 million, which was determined based on the appraised value of the 86.000% equity interest in Guolian Futures as at December 31, 2012 as evaluated by an Independent Third Party appraiser. Such disposal of equity interest in Guolian Futures was approved by the SASAC of Jiangsu Province on May 22, 2013 and approved by the CSRC on August 20, 2013, and the said consideration was fully settled on August 26, 2013. Upon completion of registration of such change with Jiangsu AIC on September 6, 2013, we no longer held any equity interest in Guolian Futures.

Approvals from Relevant Government Authorities

As advised by our PRC legal advisor, Jingtian & Gongcheng, all the aforementioned changes of equity interest of our Company in Guolian Futures are legally effective and binding on the relevant parties, and have been properly and legally completed and settled in accordance with the PRC laws and regulations, and all the relevant approvals and/or permits have been obtained from relevant government authorities.

OUR SUBSIDIARIES

Guolian Capital

Guolian Capital was established as a limited liability company in the PRC on January 18, 2010 with a registered capital of RMB200 million. According to a registered capital verification report issued by an Independent Third Party auditor, as of January 12, 2010, all of the registered capital of Guolian Capital had been paid up by our Company. Guolian Capital commenced its business on November 2010 and is mainly engaged in direct equity investments in domestic enterprises and investments in equity investment funds.

HISTORY AND CORPORATE STRUCTURE

As of the Latest Practicable Date, our Company held the entire equity interest in Guolian Capital.

Hua Ying Securities

Hua Ying Securities was established as a Sino-foreign joint venture limited liability company in the PRC on April 20, 2011 with a registered capital of RMB800 million. Our Company and The Royal Bank of Scotland plc (“RBS”) subscribed for and contributed RMB533.6 million and RMB266.4 million of the registered capital of Hua Ying Securities, respectively, and accordingly, Hua Ying Securities was owned as to 66.700% and 33.300% by our Company and RBS, respectively. According to a registered capital verification report issued by an Independent Third Party auditor, as of March 30, 2011, all of the registered capital of Hua Ying Securities had been fully paid up. Hua Ying Securities commenced its business in April 2011 and is mainly engaged in the provision of equity financing, debt financing and financial advisory services.

As of the Latest Practicable Date, our Company held 66.700% of the equity interest in Hua Ying Securities, and the remaining 33.300% of the equity interest were held by RBS (a core connected person of our Company as a result of such shareholding). RBS is in the process of transferring its equity interest in Hua Ying Securities and such transfer is subject to the approvals from the relevant PRC regulatory authorities. Such transfer has not been completed as of the Latest Practicable Date.

INFORMATION OF EXISTING SHAREHOLDERS

Guolian Group

During the period from May 1999 to August 2001, Guolian Group entered into a series of equity transfer agreements with certain of our then existing shareholders to acquire an aggregate of 47.180% of the equity interest in our Company. In addition, in connection with the increase of our Company’s registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC’s approval, Guolian Group subscribed for and contributed RMB320.41 million (of which, approximately RMB54.96 million was contributed by way of capitalizing our Company’s capital reserves, surplus reserves and undistributed profit, and the balance was contributed in cash) of the increased registered capital of our Company. Upon completion of such increase of our registered capital, Guolian Group became entitled to 34.400% of the equity interest in our Company.

Following the above acquisitions of equity interest and registered capital subscription and contribution by Guolian Group, Guolian Group had, through certain rounds of additional acquisition and transfer of equity interest in our Company from other then existing shareholders in 2006, further increased its equity interest in our Company from 34.400% to 37.364%.

As of the Latest Practicable Date, Guolian Group directly held 37.364% of the equity interest in our Company. In addition, Guolian Group also indirectly controlled 52.136% of the equity interest in our Company through Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial, all of which are its subsidiaries. For details of such indirectly controlled equity interest in our Company, please see “—Corporate Structure” below.

Guolian Group is a wholly state-owned limited liability company established in the PRC with a registered capital of RMB8 billion and is one of the promoters of our Company. Wuxi Municipal

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Government authorizes the SASAC Wuxi to perform the Shareholder's duties and supervisory duties of Guolian Group. Guolian Group mainly focuses on two business sectors, namely finance and industry. In the finance sector, Guolian Group has established a local comprehensive financial services platform, covering a number of financial institutions, including securities firms, trust companies, banks, futures companies, guarantee companies, financial companies, equity trading companies, asset management companies, investment companies, life insurance companies as well as fund companies. In the industrial sector, Guolian Group also invests in a number of companies, covering various sub-sectors, including environmental protection, electricity power, textiles and logistics.

Guolian Trust

In November 1992, upon approval by the PBOC, Guolian Trust subscribed for and contributed RMB2 million in cash to the registered capital of our Company in return for 6.250% of the equity interest in our Company at the time of our establishment.

In connection with the increase of our Company's registered capital from RMB32 million to RMB50 million in January 1999, upon the CSRC's approval, Guolian Trust subscribed for and contributed RMB3 million of the increased registered capital of our Company, and accordingly, its equity interest in our Company increased to 10.000%.

Subsequently, in connection with the increase of our Company's registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC's approval, Guolian Trust further subscribed for and contributed RMB263.01 million (of which RMB251.36 million was contributed by way of audited securities assets in the form of securities investment and the remaining RMB11.65 million was contributed by way of capitalizing our Company's capital reserves, surplus reserves and undistributed profit) of the increased registered capital of our Company, and accordingly, its equity interest in our Company increased to 26.801%.

As of the Latest Practicable Date, Guolian Trust held 26.801% of the equity interest in our Company.

Guolian Trust is a joint stock company established in the PRC with limited liability on January 13, 1987, and is one of the promoters of our Company. It is mainly engaged in the provision of trust services and direct investment in the PRC. Guolian Trust is a subsidiary of Guolian Group. For details of its shareholding information, please see "—Corporate Structure" below.

Wuxi Electric

In connection with the increase in our Company's registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC's approval, Wuxi Electric subscribed for and contributed RMB183.35 million of the increased registered capital of our Company, and accordingly, it held 18.335% of the equity interest in our Company.

As of the Latest Practicable Date, Wuxi Electric held 18.335% of the equity interest in our Company.

Wuxi Electric is an enterprise owned by the whole people (全民所有制企業) established in the PRC on March 11, 1986, and is one of the promoters of our Company. It is mainly engaged in the planning and operation of municipal public electric system and facilities in Wuxi. Wuxi Electric is an

HISTORY AND CORPORATE STRUCTURE

indirect wholly-owned subsidiary of Guolian Group. For details of its shareholding information, please see “—Corporate Structure” below.

Guolian Textile

In connection with the increase of our Company’s registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC’s approval, Guolian Textile subscribed for and contributed RMB50 million of the increased registered capital of our Company, and accordingly, Guolian Textile became entitled to 5.000% of the equity interest in our Company.

As of the Latest Practicable Date, Guolian Textile held 5.000% of the equity interest in our Company.

Guolian Textile is a limited liability company established in the PRC on April 15, 1980, and is one of the promoters of our Company. It is mainly engaged in the sale of textile products. Guolian Textile is a direct wholly-owned subsidiary of Guolian Group.

Guolian Environmental

Due to the restructuring of state-owned assets and pursuant to the approval from the SASAC Wuxi on October 10, 1999 and the approval from the CSRC on December 15, 2001, the whole equity interest of a then shareholder of our Company was assumed by Guolian Environmental in January 2002. As a result, Guolian Environmental became entitled to 10.000% of the equity interest of our Company. In addition, in connection with the increase of our Company’s registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC’s approval, Guolian Environmental further subscribed for and contributed RMB15 million (of which RMB11.65 million was contributed by way of capitalizing our Company’s capital reserves, surplus reserves and undistributed profit, and the balance was contributed in cash) of the increased registered capital of our Company, and accordingly, Guolian Environmental became entitled to 2.000% of the equity interest in our Company.

As of the Latest Practicable Date, Guolian Environmental held 2.000% of the equity interest in our Company.

Guolian Environmental is a limited liability company established in the PRC on February 28, 2000, and is one of the promoters of our Company. It is mainly engaged in the design, construction, operation and management of environmental-friendly power stations, and the production of relevant equipment. Guolian Environmental is a direct wholly-owned subsidiary of Guolian Group.

Wuxi Minsheng Investment Co., Ltd.* (無錫民生投資有限公司, “Wuxi Minsheng”)

Wuxi Minsheng entered into an equity transfer agreement with a then shareholder of our Company in November 2006, pursuant to which Wuxi Minsheng acquired 4.900% equity interest in our Company. Such equity transfer was registered with Wuxi AIC on April 2, 2007.

As of the Latest Practicable Date, Wuxi Minsheng held 4.900% of the equity interest in our Company, and was independent from the other Shareholders.

Wuxi Minsheng is a limited liability company established in the PRC on May 16, 2005, and is one of the promoters of our Company. It is mainly engaged in asset investment and corporate management.

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Wuxi Jinhong Telecommunications Group Co., Ltd.* (無錫金鴻通信集團有限公司, “Wuxi Jinhong”)

Wuxi Jinhong entered into an equity transfer agreement with a then shareholder of our Company in January 2004, pursuant to which Wuxi Jinhong acquired 1.600% of the equity interest in our Company. Such equity transfer was registered with Wuxi AIC on December 8, 2006.

As of the Latest Practicable Date, Wuxi Jinhong held 1.600% of the equity interest in our Company, and was independent from the other Shareholders.

Wuxi Jinhong is a limited liability company established in the PRC on August 28, 1998, and is one of the promoters of our Company. It is mainly engaged in the installation and maintenance of postal equipment.

Jiangsu Xinfang Industrial Co., Ltd.* (江蘇新紡實業股份有限公司, “Jiangsu Xinfang”)

In connection with the increase of our Company’s registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC’s approval, Jiangsu Xinfang subscribed for and contributed RMB15 million of the increased registered capital of our Company, and accordingly, Jiangsu Xinfang became entitled to 1.500% of the equity interest in our Company.

As of the Latest Practicable Date, Jiangsu Xinfang held 1.500% of the equity interest in our Company, and was independent from the other Shareholders.

Jiangsu Xinfang is a joint stock company established in the PRC with limited liability on December 22, 1987, and is one of the promoters of our Company. Jiangsu Xinfang is mainly engaged in the manufacturing and sales of chemical fabrics and electrical equipment.

Wuxi Weifu High-technology Co., Ltd.* (無錫威孚高科技集團股份有限公司, “Weifu High-tech”)

Upon approval by the PBOC, Weifu High-tech subscribed for and contributed RMB1 million in cash to the registered capital of our Company in return for 3.130% of the equity interest in our Company at the time of our establishment in November 1992. Following such registered capital contribution, through certain rounds of additional acquisition of equity interest in our Company from other then existing Shareholders and additional registered capital contribution from 1992 to 1997, Weifu High-tech increased its equity interest in our Company from 3.130% to 18.750%.

In connection with the increase of our Company’s registered capital from RMB32 million to RMB50 million in January 1999, upon the CSRC’s approval, Weifu High-tech subscribed for and contributed RMB2 million of the increased registered capital of our Company, and upon completion of the registration with Wuxi AIC of such increase of registered capital, Weifu High-tech’s equity interest in our Company decreased from 18.750% to 16.000%.

In August 2001, Weifu High-tech entered into an equity transfer agreement with Guolian Group pursuant to which Weifu High-tech transferred 10.000% of the equity interest in our Company to Guolian Group, and accordingly, Weifu High-tech’s equity interest in our Company decreased to 6.000%. In connection with the increase of our Company’s registered capital from RMB50 million to RMB1 billion, upon the CSRC’s approval, Weifu High-tech further subscribed for and contributed RMB9 million (of which RMB6.99 million was contributed by way of capitalizing our Company’s capital reserves, surplus reserves and undistributed profit, and the balance was contributed in cash) of the increased registered

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capital of our Company, and accordingly, Weifu High-tech's equity interest in our Company further decreased to 1.200%.

As of the Latest Practicable Date, Weifu High-tech held 1.200% of the equity interest in our Company, and was independent from the other Shareholders.

Weifu High-tech is a joint stock company established in the PRC with limited liability on October 27, 1988, and is one of the promoters of our Company. Its A shares and B shares have been listed in the Shenzhen Stock Exchange (深圳證券交易所) since September 1998 and September 1995, respectively. Weifu High-tech is mainly engaged in the development, manufacturing and trading of machinery and chemical products.

Wuxi New District Development Group Co., Ltd.* (無錫市新區發展集團有限公司, “Wuxi New District Development”)

Pursuant to the resolution of extraordinary general meeting of our Company on July 28, 2002, Wuxi New District Development acquired 0.800% of the equity interest in our Company from a then existing Shareholder of our Company. Such transfer of equity interest in our Company was approved by the SASAC of Wuxi New District in August 2002 and was registered with Wuxi AIC on March 10, 2003, and accordingly, Wuxi New District Development became entitled to 0.800% of the equity interest in our Company.

As of the Latest Practicable Date, Wuxi New District Development held 0.800% of the equity interest in our Company, and was independent from the other Shareholders.

Wuxi New District Development is a limited liability company established in the PRC on July 21, 1992, and is one of the promoters of our Company. Wuxi New District Development is mainly engaged in real estate development and government-project construction.

Wuxi Xinye Construction Development Co., Ltd.* (無錫市新業建設發展公司, “Wuxi Xinye”)

In connection with our Company's conversion into a limited liability company in January 1999, upon the CSRC's approval, Wuxi Xinye acquired 2.000% of the equity interest in our Company from a then existing Shareholder of our Company. Following completion of the registration of such change with Wuxi AIC, Wuxi Xinye held 2.000% of the equity interest in our Company.

Subsequently, in connection with the increase of our Company's registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC's approval, Wuxi Xinye further subscribed for and contributed RMB3 million (of which RMB2.33 million was contributed by way of capitalizing our Company's capital reserves, surplus reserves and undistributed profit, and the balance was contributed in cash) of the increased registered capital of our Company and upon completion of the registration with Wuxi AIC of such increase of registered capital, Wuxi Xinye's equity interest in our Company decreased to 0.400%.

As of the Latest Practicable Date, Wuxi Xinye held 0.400% of the equity interest in our Company, and was independent from the other Shareholders.

Wuxi Xinye is an enterprise owned by the whole people (全民所有制企業) established in the PRC on February 22, 1993, and is one of the promoters of our Company. It is mainly engaged in the sales of construction materials.

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Yixing Assets Management Company* (宜興市資產經營公司, “Yixing Assets”)

Yixing Assets entered into an equity transfer agreement with a then shareholder of our Company in August 2001, pursuant to which Yixing Assets acquired 0.500% of the equity interest in our Company. The said equity transfer was approved by the CSRC on December 15, 2001 and registered with Wuxi AIC on January 29, 2002.

Subsequently, in connection with the increase of our Company’s registered capital from RMB50 million to RMB1 billion in January 2002, upon the CSRC’s approval, Yixing Assets further subscribed for and contributed RMB750,000 (of which RMB582,500 was contributed by way of capitalizing our Company’s capital reserves, surplus reserves and undistributed profit, and the balance was contributed in cash) and upon completion of the registration with the Wuxi AIC of such increase of registered capital, Yixing Assets’s equity interest in our Company decreased to 0.100%.

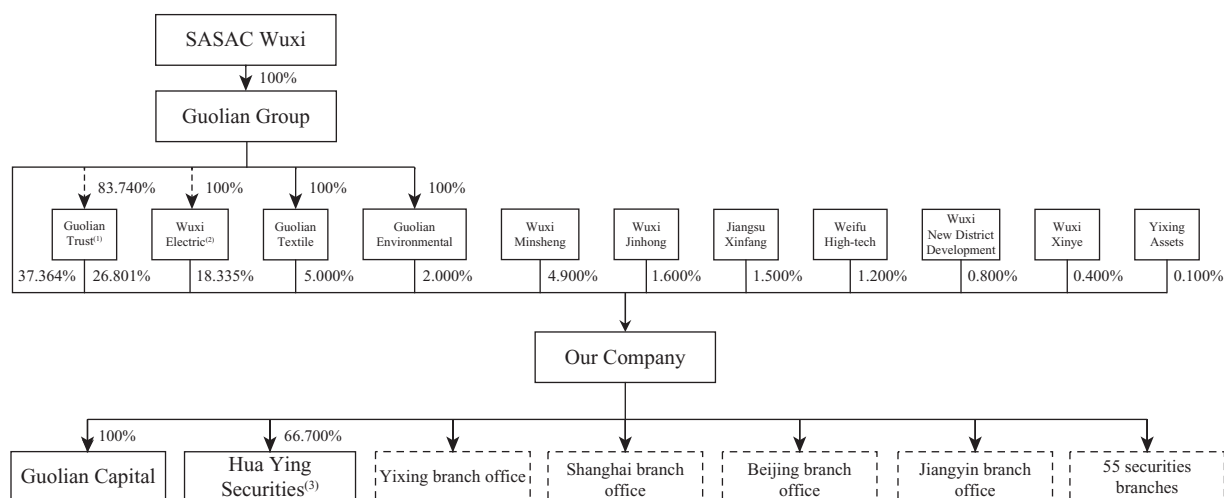
As of the Latest Practicable Date, Yixing Assets held 0.100% of the equity interest in our Company, and was independent from the other Shareholders.

Yixing Assets is an enterprise owned by the whole people (全民所有制企業) established in the PRC on October 21, 1992, and is one of the promoters. It is mainly engaged in equity investment, project operation and asset management.

As advised by our PRC legal advisor, Jingtian & Gongcheng, all of the aforementioned changes in shareholding of our Company have been effectively completed and settled and are binding on the relevant parties, and the shareholding structure of our Company is legal and effective.

CORPORATE STRUCTURE

The equity holding structure of our Group as of the Latest Practicable Date is set out below (entities within dotted lines are branch offices and/or securities branches of our Company):



Note:

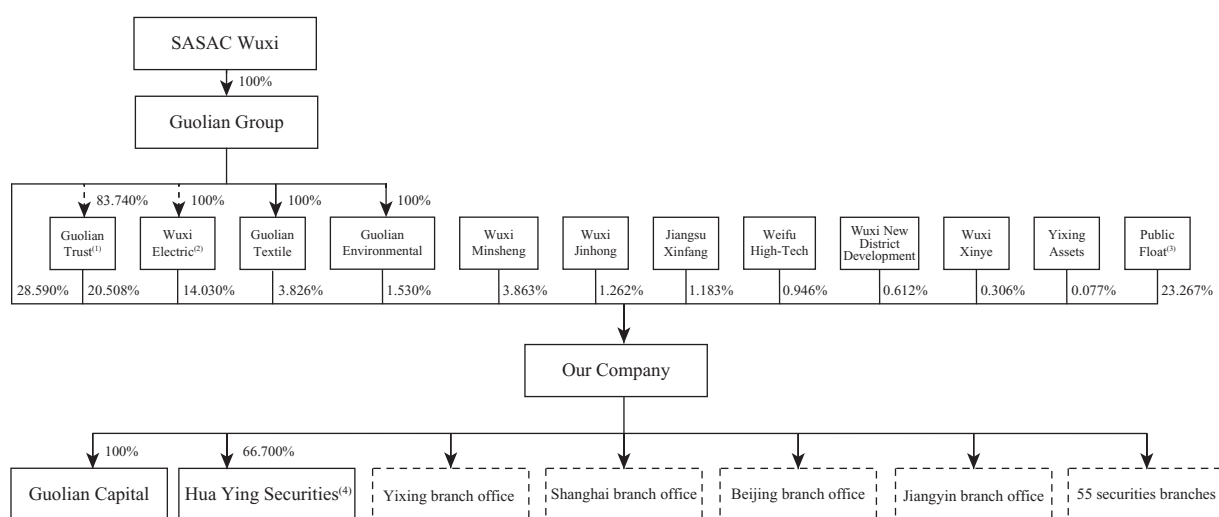
(1) As of the Latest Practicable Date, the equity interest of Guolian Trust was owned as to 65.854% by Guolian Group, 9.756% by Guolian Environmental, 8.130% by Wuxi Electric, 8.130% by Wuxi Communication Industry Group Co., Ltd.* (無錫市交通產業集團有限公司, “Wuxi Communication”) and 8.130% by Wuxi Commercial Mansion Grand Orient Co., Ltd.* (無錫商業大廈大東方股份有限公司, “Grand Orient”), respectively. As of the Latest Practicable Date, each of Guolian Environmental and Wuxi Electric was a wholly-owned subsidiary of Guolian Group, while save as the indirect shareholding in our Company through Guolian Trust, each of Wuxi Communication and Grand Orient was an Independent Third Party.

HISTORY AND CORPORATE STRUCTURE

- (2) As of the Latest Practicable Date, Wuxi Electric was wholly owned by Guolian Industrial, which was in turn wholly-owned by Guolian Group.
- (3) As of the Latest Practicable Date, the remaining 33.300% equity interest in Hua Ying Securities was held by RBS (a core connected person of our Company as a result of such shareholding). RBS is in the process of transferring its equity interest in Hua Ying Securities and such transfer is subject to the approvals from the relevant PRC regulatory authorities. Such transfer has not been completed as of the Latest Practicable Date.

In relation to the Listing, the Selling Shareholders, namely Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental, Wuxi New District Development, Wuxi Xinye and Yixing Assets will sell the Sale Shares in accordance with the letter issued by the NSSF (Shebaojijinfafa [2015] No. 45) on March 31, 2015 and the prevailing PRC laws in relation to the conversion/reduction of state-owned shares.

The equity holding structure of our Group immediately following the Global Offering is set out below (entities within dotted lines are branch offices and/or securities branches of our Company):



Notes:

- (1) As of the Latest Practicable Date, the equity interest of Guolian Trust was owned as to 65.854% by Guolian Group, 9.756% by Guolian Environmental, 8.130% by Wuxi Electric, 8.130% by Wuxi Communication and 8.130% by Grand Orient, respectively. As of the Latest Practicable Date, each of Guolian Environmental and Wuxi Electric was a wholly-owned subsidiary of Guolian Group, while save as indirect shareholding in our Company through Guolian Trust, each of Wuxi Communication and Grand Orient was an Independent Third Party.
- (2) As of the Latest Practicable Date, Wuxi Electric was wholly owned by Guolian Industrial, which was in turn wholly owned by Guolian Group.
- (3) The Sale Shares converted from Domestic Shares and offered by the Selling Shareholders in accordance with the PRC laws relating to the conversion/reduction of state-owned shares have been included. For details, please refer to the section headed “Share Capital” in this prospectus.
- (4) As of the Latest Practicable Date, the remaining 33.300% equity interest in Hua Ying Securities was held by RBS (a core connected person of our Company as a result of such shareholding). RBS is in the process of transferring its equity interest in Hua Ying Securities and such transfer is subject to the approvals from the relevant PRC regulatory authorities. Such transfer has not been completed as of the Latest Practicable Date.

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OVERVIEW

We are one of the leading integrated securities firms in Wuxi based on trading volume of agency sales of securities. We have comprehensive service network coverage and diversified product offerings that support our rapid growing business. According to Wind Info, our branch network is the most extensive in Wuxi among all PRC securities firms with branches there. In 2014, Wuxi had a nominal GDP of RMB820.5 billion, which was the third highest in Jiangsu province. We have also strategically established our presence in Jiangsu province and other parts of China. We believe we are well-positioned to capitalize on the rapid growth in the securities industry in Wuxi as well as in Jiangsu province and the ample business opportunities emerging from the gradual relaxation of securities regulations in China. Our principal business lines include:

- **Brokerage:** We act as agent to our customers in the trading of stocks, funds and bonds and also provide other services, such as the sales of financial products on a commission basis, futures IB business and investment advisory business.
- **Investment banking:** We provide equity financing, debt financing and financial advisory services to institutional clients through our majority-owned subsidiary, Hua Ying Securities. We also directly provide listing and referral services as chief agency broker to help companies enter into the NEEQ.
- **Asset management and investment:** We offer collective asset management scheme, targeted asset management scheme and specialized asset management scheme to our clients. We also carry out direct investment business through our wholly-owned subsidiary, Guolian Capital.
- **Credit transactions:** We use the funds we own or raise to provide margin financing and securities lending services and engage in other types of capital-based intermediary businesses, such as securities-backed lending and securities repurchase.
- **Proprietary trading:** We engage in the trading of stocks, bonds and funds as well as derivatives with our own account to achieve investment gains.

We have established sound corporate government and effective risk management and internal control systems to manage our risk exposure in our business operations. Recognizing the effectiveness of our risk management and internal control systems, the CSRC assigned us an “A” regulatory rating in 2014 (the highest regulatory rating given by the CSRC in 2014 was “AA”).

We have achieved rapid growth and enhanced our profitability during the Track Record Period. Our revenue and other income increased by 39.8% from RMB772.4 million in 2012 to RMB1,079.5 million in 2013, and further increased by 97.5% to RMB2,131.6 million in 2014, representing a CAGR of 66.1%. Our net profit for the year increased by 196.2% from RMB92.1 million in 2012 to RMB272.8 million in 2013, and further increased by 167.7% to RMB730.4 million in 2014, representing a CAGR of 181.6%. In addition, as at December 31, 2012, 2013 and 2014, we had total assets of RMB9,295.9 million, RMB11,932.3 million and RMB20,448.8 million, respectively.

COMPETITIVE STRENGTHS

As one of the leading integrated securities firms in Wuxi based on trading volume of agency sale of securities, we believe the following strengths differentiate us from our competitors:

We are well-positioned to benefit from the strong economic position of Wuxi and Jiangsu province

We are headquartered in Wuxi, and as of December 31, 2014, we operated 26 of our 55 securities branches in the region. With a nominal GDP of RMB820.5 billion in 2014, Wuxi was the third largest economic entity in Jiangsu province. In addition, in 2014, the per capita GDP of Wuxi amounted to RMB126,400, which was higher than that of both China and Jiangsu province. Based on our operating history in Wuxi, we have developed a deep understanding of the local capital market structure and environment, as well as customers' financial and investment needs. Our brokerage business accounted for over 45.0% market share in Wuxi in 2013 in terms of trading volume of agency sale of securities, which provided a solid customer base for our other businesses. Furthermore, we have established strong brand recognition and market position in Wuxi. Leveraging on these advantages, we have maintained a leading position in Wuxi's securities industry, which we believe will serve as a stepping stone to enable us to capture a larger market share in Jiangsu province.

Jiangsu province is located in eastern coastal area of China and is among the most developed provinces in China. In 2014, it had a nominal GDP of RMB6.5 trillion, ranking second to Guangdong province among all provinces in China and accounting for 10.2% of the nominal GDP in China. Buoyed by China's steady economic growth in the 21st Century, Jiangsu province's nominal GDP increased from RMB4.1 trillion in 2010 to RMB6.5 trillion in 2014, representing a CAGR of 12.0%. Due to its strategic location, Jiangsu province serves as an important manufacturing and technological hub in eastern China, enabling it to capture abundant economic and industrial opportunities. In 2014, Jiangsu province's per capita GDP was RMB81,874, which increased from a per capita GDP of RMB52,840 in 2010, representing a CAGR of 11.6%. During the past six years, Jiangsu province has also benefited, and we believe will continue to benefit, from favorable national government policies to continue to stimulate its economic development, especially the development of the financial services industry. For example, in July 2009, the NDRC promulgated the Development Outlook of Jiangsu Coastal Area (《江蘇沿海地區發展規劃》) to (i) focus on cultivating the financial markets in Jiangsu province by actively developing local financial services industry and expediting the introduction of various financial institutions; (ii) support the issuance of corporate bonds or listing of equity securities, as applicable, by qualified enterprises; and (iii) establish financing platforms to support the growth of SMEs. In light of these factors, we believe Jiangsu province has a tremendous potential for future economic development and growth.

Furthermore, Jiangsu government issued Opinions on Accelerating Financial Reform and Innovation (《關於加快推進金融改革創新的意見》) on July 24, 2014 to (i) encourage the development and innovation of Jiangsu province's financial holdings platforms; (ii) strengthen the comprehensive investment capabilities of banks, securities firms, futures companies, insurance companies and trust companies; and (iii) further improve the securitization ratio of Jiangsu province. Taking advantage of the regional economic development and favorable government policies, we believe Jiangsu province's securitization ratio will continue to rise, creating new market opportunities for securities firms, in particular, regional securities firms.

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We also benefited from local government initiatives to grow our business and operations. For instance, in July 2014, the government of Wuxi issued Opinions on Deepening Financial Reform and Innovation (《關於全面深化金融改革創新的若干意見》) to further financial reform and innovation, to grow corporate financial institutions and to encourage the development of different types of financial entities and thereby, to build a more vibrant financial system with diversified businesses. Meanwhile, the government of Wuxi is expected to actively promote the growth of new financial businesses, such as the Internet finance business, improve financial services and establish a financing platform for local SMEs.

With an extensive branch network and broad customer base in Wuxi, our business is complemented by our strategic presence across Jiangsu province and China

According to Wind Info, we have the most extensive branch network coverage in Wuxi among all PRC securities firms that have branches there. As of December 31, 2014, we had 26 securities branches in Wuxi, covering all of the administrative districts and county-level cities. All of our securities branches in Wuxi provide comprehensive securities and financial services platforms to our customers, including securities brokerage and investment advisory services. We believe that an extensive and comprehensive branch network in Wuxi allows us to solidify our market leading position and customer base in this area, which may bring us growth potential and lay a solid foundation for developing our new businesses with higher profit margin.

Leveraging our strong presence in Wuxi, we have strategically extended our branch network coverage to other parts of Jiangsu province. As of December 31, 2014, we had 12 securities branches in areas in Jiangsu province that are outside of Wuxi, which we strategically developed and operated with a focus on areas with more advanced economic growth potential. Our strategic presence in other areas of Jiangsu province enables us to source more customers and business opportunities across the province, and together with our securities branches in Wuxi, forms extensive network coverage to ensure sustainable customer base and increased synergies across our branch network.

Solidifying our market leading position in Wuxi and our increased presence in Jiangsu province, we have established securities branches in major cities and provincial capitals across China to take advantage of the growth opportunities nationwide. As of December 31, 2014, we had 17 securities branches outside of Jiangsu province, including, among others, Beijing, Shanghai, Zhejiang, Guangdong, Hunan, Shandong and Chongqing. During the Track Record Period, as we expanded our brokerage business, our customer base also grew from approximately 543,400 retail clients and over 1,400 institutional customers in 2012 to over 584,500 retail clients and approximately 1,500 institutional customers as at December 31, 2014, of which nearly 50.0% were active clients. In addition, we emphasize maintaining stable relationships with our customers. As of December 31, 2014, approximately 76.2% of our retail brokerage clients have maintained business relationships with us for more than five years, compared to 70.0% as of December 31, 2012, and approximately 42.6% of our retail brokerage clients have maintained business relationships with us for more than ten years. With a stable and growing customer base and strategic presence in Jiangsu province and across China, we believe our business has a tremendous growth potential.

Strong product research and development capabilities and optimized business structure enable us to capture opportunities arising from PRC securities industry reforms

To be in the forefront of, and to capture new opportunities arising from, the PRC securities industry's transformation and maturation, and to take advantage of the gradually loosening of the

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regulatory requirements in the industry, we have focused on continuously improving our product development capabilities. For example, we have established an Internet finance department to research and introduce new products and services to our clients, all of which are promoted via our Internet trading services platform. Meanwhile, with such platform, our clients can also open accounts, conduct trading and receive other financial services and products we offer online. Internet trading business allows us to reach more customers while keeping our operating costs low as we are able to reduce our reliance on the number of physical branches we need in order to expand our client coverage. We use the Internet trading channels to integrate our financial advisors and securities brokerage agents located within our nationwide branch network as an effective resource to provide investment advisory services to clients more conveniently and efficiently. Our Internet trading platform has strengthened our traditional securities brokerage business, which experienced a steady annual revenue growth of approximately 30.7% during the Track Record Period. Accordingly, we experienced an increase in online trading volume (including the trading volume from margin financing and securities lending and the trading volume on mobile phones) from RMB496.8 billion in 2012 to RMB1,287.4 billion in 2014. We have been providing online account opening service for our customers since November 2013. Over 10,000 customers have opened their accounts with us online in 2014, representing approximately 33.0% of our new brokerage customers in brokerage business in the same year. We expect the number of clients who open their accounts with us online to continue to increase following more resource commitment from us to the continued development and growth of our Internet trading business.

In addition, to enhance our competitiveness, we placed great emphasis on product development. In the past several years, we have obtained a number of qualifications to conduct new businesses, including, among others, margin financing and securities lending, securities-backed lending and securities repurchase. With respect to asset management business, we have also developed various new products to meet the different needs of our clients. The following businesses have achieved rapid growth and made significant contribution to our revenue growth during the Track Record Period.

- *Margin financing and securities lending.* We obtained our qualification to conduct margin financing and securities lending business from the CSRC in May 2012 and commenced the business in July 2012. Since commencement, our margin financing and securities lending business has grown rapidly based on our extensive and stable customer base. The segment revenue and other income from our margin financing and securities lending business increased from RMB4.1 million in 2012 to RMB171.4 million in 2014, representing a CAGR of 546.6%, and the balance of our margin loans and securities lent increased from RMB191.0 million in 2012 to RMB3,800.2 million in 2014.
- *Securities-backed lending.* We launched our securities-backed lending business in July 2013. As of December 31, 2014, the total value of non-tradable securities pledged by our clients as collateral amounted to approximately RMB3,203.2 million, representing an increase of approximately 858.0% from December 31, 2013. During the same period, interest income we received from this business increased from RMB1.7 million in 2013 to RMB25.7 million in 2014.
- *Asset management.* As of December 31, 2014, we established 71 asset management schemes, of which 38 were collective asset management schemes, and served approximately 9,600 asset management clients. From 2012 to 2014, segment revenue and other income of our asset management business increased from RMB16.9 million to RMB210.2 million, and our total AUM increased from RMB1,367.8 million to RMB16,695.3 million.

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We believe our track record and success in new businesses and our strong product development capabilities will help us capture additional opportunities arising from the reforms in the PRC securities industry.

We also tried to minimize adverse market volatility on our results of operations by optimizing our business structure to gradually achieve a balanced segment mix with diverse sources of revenue. While maintaining our securities brokerage business as a key component of our operations and as a major foundation on which we rely to promote our other value-added services, such as margin financing and securities lending, we have actively expanded our investment banking, proprietary trading and other credit transactions businesses in recent years. Consequently, we now boast a comprehensive business services platform, which combines traditional securities services and products with numerous new businesses. Such platform also enables us to tailor our services and products to different types of customers with varying financial and investment needs.

We have highly efficient operations, which result in cost-effective financial performance

Our operations are highly efficient. We are among the top securities firms in the PRC in terms of operating cost control. According to SAC, a securities firm's cost management capability index, which reflects such firm's overall cost management capability, is calculated by subtracting a securities firm's investment income and fair value gains from its operating income, then dividing the difference by its operating expenses. In 2014, our cost management capability index was 1.42, which ranked 28th among all PRC securities firms.

Assuming all other factors being equal, lower operating cost generally results in higher net profit margin, return on equity and return on assets. For example, according to SAC, in 2014, our return on Net Capital, calculated under the PRC GAAP, was 17.2% and higher than the industry average of 14.1%. Further, our net profit margin has also significantly increased from 12.1% in 2012 to 34.4% in 2014. Similarly, in 2014, our return on average equity and return on average total assets were 19.6% and 4.4%, respectively, which was higher than the average of other PRC securities firms that are listed on the Stock Exchange. In addition, from 2013 to 2014, our revenue and other income and net profit increased by 97.5% and 167.7%, respectively, which was also higher than the average of all PRC securities firms that are listed on the Stock Exchange. We believe that maintaining cost control is an important measure to increase our profitability and enhance our competitiveness in business operations and financial performance.

We benefit from the strong brand recognition of Guolian Group

As of the Latest Practicable Date, one of our Controlling Shareholders, Guolian Group, held approximately 37.364% of the equity interest in our Company. It also indirectly controlled approximately 52.136% of equity interest in our Company through its subsidiaries, namely, Guolian Trust, Wuxi Electric, Guolian Textile and Guolian Environmental. Guolian Group, funded and established by Wuxi Municipal People's Government in 1997, mainly focuses on two business sectors, namely, finance and industry. In the finance sector, Guolian Group has established a local comprehensive financial services platform, covering a number of financial institutions, including securities firms, trust companies, banks, futures companies, guarantee companies, financial companies, equity trading companies, asset management companies, investment companies, life insurance companies as well as fund companies. With over 17 years of operations in the sector, it has established a successful track record and strong brand recognition. We believe the background and brand

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recognition of Guolian Group have enhanced our clients' confidence in us, and thus, enabled us to strengthen and to continue to expand our customer base to capture new business opportunities.

We have an experienced senior management team with the support of a team of high-quality professionals

Our senior management team has extensive experience in securities and financial services industry and outstanding management capabilities, enabling it to form a deep understanding of the industry development trends, make accurate business judgments, timely capture business opportunities and prudently adjust our business strategies. More than half of our senior management team holds master's or doctor's degrees and has an average of approximately 19 years of management experience in the securities and financial services industry. Our Chairman, Yao Zhiyong, has over 21 years of working experience in the PRC securities and financial services industry, and has an in-depth knowledge and insight on China's macroeconomic policies, securities market and the local economy in Jiangsu province and Wuxi. Prior to joining our Company, Mr. Yao has held management positions at Guolian Group, Wuxi Guolian Investment Management Consulting Co., Ltd. and our predecessor, Wuxi Securities Co., Ltd.

Our President, Lei Jianhui, has served in the financial services industry for over 21 years. Mr. Lei joined our Group in July 2001 and served as an executive Vice President of our Company in charge of the corporate management from July 2001 to February 2004. He subsequently worked in Zhonghai Fund as a general manager and a director from March 2004 to July 2007 and from March 2004 to May 2008, respectively. Afterwards, Mr. Lei rejoined our Company and served as an executive Director and the President since June 2008 and May 2013, respectively. Concurrently, he has also been serving as Chairman of the board in Hua Ying Securities and a director of Guolian Capital since their respective dates of establishment. For a detailed biography of our senior management, please see "Directors, Supervisors and Senior Management" of this prospectus.

Our mid-level management team, including the respective leaders of all departments and branches, has an average of 14 years of experience in the PRC securities industry and has strong execution capabilities. We believe having an experienced senior management team that is supported by capable mid-level managers is vital to ensuring our future success.

We have prudent and effective risk management system and internal controls, as well as sophisticated IT systems

We believe effective risk management creates corporate value, and have established a comprehensive risk management system to evaluate and manage the market risk, credit risk and operational risk we encounter in our day-to-day business operations, to optimize risk allocation and to formulate risk-mitigating measures. We have implemented a four-level risk management structure consisting of: (i) the Board and the Risk Control Committee; (ii) senior management, the Risk Management Committee and the Chief Risk Officer; (iii) the compliance and risk management department; and (iv) our various business departments, branches and subsidiaries. With the implementation of sound risk management systems and procedures, we are able to comprehensively manage all types of risks and steadily improve our standard risk management system. We follow a thorough review and approval process to ensure comprehensive systems and procedures, and risk management personnel are in place before launching a new business. This ensures that we exercise caution when introducing an innovation to avoid launching a new business that would be too risky for

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us to manage. In addition, we have established risk control indicators and early warning mechanisms to monitor our Net Capital. To assist us in optimizing our asset allocation, we also carry out sensitivity analyses for various risks across our business lines and conduct stress testing on a regular and *ad hoc* basis.

Furthermore, we have implemented a series of internal control measures to manage the specific risks relating to our business activities. We strive to timely identify any internal control deficiencies and continuously improve our internal control system through quantitative risk management and operational risk control in order to safeguard the stable development of our business. Considering our effective risk management and internal control systems, the CSRC assigned us an “A” regulatory rating in 2014 (the highest regulatory rating given by the CSRC in 2014 was “AA”).

To effectively manage our operations, we have an advanced IT infrastructure. We have implemented a centralized online trading system, which connects all of our branches and our clients in China and enables us to process and share data and information across our entire company. In addition, we also have a client relationship management system that provides support for our client services, product promotion and sales and marketing efforts. We regard IT systems as fundamental for the continuous success of our business and future growth, especially in light of the development of Internet trading platforms, and we strive to improve our IT infrastructure and applications. Furthermore, we have a dedicated IT research and development team that is responsible for conducting thorough analyses on new technologies and developing in-house applications and systems.

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In light of the recent liberalization of the PRC securities market, we aim to be at the forefront of innovation and capture growth opportunities in the marketplace and thereby, increase our profitability and sustain our rapid growth. We intend to achieve these goals through executing client-centric, innovation-driven strategies that are focused on balanced and synergistic growth among our various business lines. We will continue to focus on the securities market in Wuxi and Jiangsu province, and leverage our regional advantage to enhance our competitive strengths to expand our strategic presence elsewhere in China. Specifically, our business strategies include the following:

Strengthen our market position in the brokerage business and continue to promote its transformation to lay a solid foundation for the development of our other businesses

We intend to strengthen our market position in brokerage business in Wuxi and Jiangsu province, which we believe is a solid foundation that will help us expand our other business lines. We plan to implement the following specific strategies:

- *Optimizing our branch network:* We intend to optimize our branch coverage by increasing the number of securities branches we operate in Jiangsu province and elsewhere in China, particularly in developed regions where there is high accumulation of personal wealth and high securitization ratio. Subject to regulatory approvals, we intend to open approximately 10 additional securities branches in Jiangsu province and other areas based on the development needs of our brokerage business. We also plan to improve our operational efficiency by opening new “light branches” and completing the transition of our traditional securities branches into “light branches” based on our understanding of the local securities market, our customers’ needs and our operational advantages within our existing branch

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network. In addition, we intend to open and operate three regional branch offices in Nanjing, Suzhou and Wuxi to manage and coordinate various services and products that are currently being provided to our customers through our headquarters rather than via our securities branches. Please refer to “—Our Business—Brokerage—Branch Network and Trading Platforms” for the specific business scope of our regional branch offices. We believe these measures will help us extend our customer reach and expand our customer base by attracting more individual and institutional clients.

- *Transforming our traditional brokerage revenue model:* We intend to strengthen our efforts to develop and promote the sales of financial products, futures IB business and investment advisory services. Specifically, we aim to sell, on a commission basis, a more diverse range of third-party financial products as well as to sell additional self-developed asset management products to expand our customer coverage. We also intend to offer our clients more value-added services by expanding our futures IB service to enhance their loyalty and improve customer retention. In addition, we endeavor to enhance the professional skills and knowledge of our financial consultancy team and offer exclusive investment advisory and wealth management services to attract new clients. Through these measures, we aim to transform our traditional brokerage revenue model into a new business model focusing on providing comprehensive wealth management services and products. Such transformation will allow us to lessen the impact of the decline in our average brokerage commission rate, diversify our sources of income, integrate our various business lines and achieve our full-service development strategy.
- *Enhancing customer loyalty:* We plan to enhance the loyalty of our customers by continuing to optimize a customer classification structure based on their different risk preferences, account values and asset management and investment needs. By offering differentiated and customized products and services based on such classification structure, we can better retain these customers, which we believe, will ultimately enhance our pricing ability in the brokerage business and improve our overall competitiveness.
- *Effectively utilizing the Internet to develop our various businesses:* We intend to rely on the Internet to break geographical barriers and expand our service network coverage and further develop our various businesses. In particular, in addition to client account opening, trading and customer service functions we currently offer, we endeavor to expand our service and product offerings through our Internet trading services platform, including offering new products and services, such as margin financing and securities lending, and developing and implementing various applications to (i) provide investment advisory services; (ii) offer wealth management products; and (iii) provide easy access to customers to engage in quantitative trading, all of which are aimed to improve our customer satisfaction and achieve nationwide business development with lower sales channel establishment and marketing costs.

Capture opportunities from PRC securities industry reform to strengthen our regional advantage, and gradually grow into a competitive modern investment bank

We plan to further develop our investment banking business through our majority-owned subsidiary, Hua Ying Securities (other than our OTC market business, which we conduct directly), by focusing on providing equity refinancing for companies listed on the PRC stock exchanges, debt financing and financial advisory services, while in the meantime, actively tracking IPO opportunities to

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cultivate potential clients and diversify future sources of income. In addition, we plan to continue to expand our OTC market business. We intend to implement the following specific strategies:

- *Equity financing:* We intend to prioritize equity refinancing business for listed companies and also place emphasis on the IPO business due to considerable growth potential given the recent reform plans for the A share IPO system, which entails the transformation from the existing approval-based system to a registration-based system. Our customer strategy will primarily focus on developing long-term relationships with our institutional clients and fostering deeper ties by providing them with professional and customized financing services, which we believe will lead to additional future business opportunities. In addition, we plan to leverage our past successes to further develop our equity financing business in regions where we enjoy sound reputation and solid brand recognition, such as Jiangsu, Shandong and Guangdong provinces. We will utilize our geographical and brand advantages in these regions to establish new client relationships.
- *Debt financing:* We believe that debt financing business has a tremendous growth potential and will continue to be a vital component of the PRC direct financing market. We plan to rely on our extensive business experience, outstanding execution capability, broad customer base and strong marketing efforts to further expand our debt financing business involving enterprise bonds, corporate bonds, SME private placement bonds and other debt products. In addition, we will continue to research and develop new debt financing products, such as asset-backed securities and revenue bonds. We also plan to improve the traditional debt financing model, which generally comprises a three-stage process involving contracting, undertaking and underwriting, by engaging funding parties in the early stage of product design to streamline the entire financing process.
- *Financial advisory:* As industry consolidation in the PRC increases and due to the recent reform of M&A approval policy for listed companies, we intend to facilitate more corporate restructuring and M&A for listed companies in key industry sectors and proactively advise on reorganization and M&A activities for private companies. We also plan to expand our corporate restructuring and M&A businesses by strengthening our industry research capability, effectively tracking market development trends by using our customer resources to capture additional corporate restructuring and M&A opportunities. Additionally, we will actively develop other businesses, including advisory services for equity incentive schemes and employee stock option schemes to diversify our financial advisory business.
- *OTC market:* We conduct our OTC market business directly. Since there are a number of quality companies in Jiangsu and surrounding provinces that face limited financing channels, we intend to continue to expand our NEEQ listing and referral services to help these companies enter into the NEEQ, and thereby, providing needed liquidity for their operations and growth through private placement on the NEEQ. Through our offering of diversified follow-up services, including financing and M&A, as well as the implementation of rigorous screening standards for new customers, we hope to establish long-term business relationships with our potential clients. We also recently obtained relevant qualification to conduct market-making activities on the NEEQ. We commenced this business at the end of 2014 and plan to abide by our overall business strategy to formulate rigorous selection standards for the NEEQ-listed companies that we believe are suitable for our market-making business in order to secure stable sources of income.

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As the PRC regulatory authorities begin to transform the existing approval-based IPO system to a registration-based IPO system for the A share market and push for interest rate liberalization, the ability of PRC securities firms to satisfactorily price IPO shares and to successfully distribute securities become key indicators of the competitiveness of such firms' investment banking business. We aim to strengthen our securities sales team and enhance our pricing and distribution capabilities. In addition, in the long run, we intend to integrate our financing, M&A, market valuation management and strategic planning functions and capabilities to provide our customers comprehensive and customized financial and capital operation services. Through the long-term cooperation with our clients, we believe we will be able to foster mutually beneficial strategic partnerships.

Emphasize and expand our asset management business through product research and development

We believe our asset management business has considerable growth potential primarily because (i) both Wuxi and Jiangsu province are considered more economically developed in China with a strong demand for asset management services; (ii) Jiangsu province ranked fifth in the PRC in terms of the number of high-net worth individuals, according to 2013 Hurun Wealth Report; and (iii) the deregulation of the PRC securities market as well as the reasonable layout of our national branch network creates potential to expand our asset management business. We intend to implement the following business strategies:

- expand our product and service offerings through product innovation. We plan to develop and offer products with high market acceptance, such as different types of collective asset management products, as well as more personalized specialized asset management products. We also plan to increase our total AUM by developing and offering collective asset management schemes and targeted asset management schemes based on customer demand, and to enhance our sales and marketing capabilities; and
- develop appropriate incentive plans to attract and retain highly qualified professionals, and strengthen and expand our business development, execution and internal support teams to improve the quality of our customer service. We also plan to establish a channel management team to increase the risk awareness of our sales professionals and to provide personalized services to our clients based on their risk preferences and asset management needs and thereby, foster closer ties with customers.

Continue to expand our customer base to grow our margin financing and securities lending business, rapidly develop our other capital-based intermediary businesses and achieve stable long-term growth

Margin financing and securities lending business and our other capital-based intermediary businesses are essential to our rapid growth and future capital investment prospects. Based on the recent liberalization of PRC capital markets, we expect the types of the securities that are eligible to such

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businesses will increase and institutional investors, such as fund management companies and insurance companies, may also be eligible to take advantage of the margin financing and securities lending services. These services help diversify our business, improve customer loyalty, supplement our traditional business segments and create additional revenue streams. We intend to further expand our margin financing and securities lending and other capital-based intermediary businesses by taking the following measures:

- integrate customer resources, transform business processes, improve service platforms, develop from a simple margin financing and securities lending business platform to a comprehensive credit financing and trading platform;
- track market development trends, carefully consider customers' financial needs, improve and innovate the substance and form of our credit transactions business by enhancing our product development capabilities and strengthening our ability to offer integrated financial solutions and asset securitization services;
- introduce, adjust and improve our credit trading risk management platform through which we can effectively and intelligently manage all types of customers, and at the same time, we can properly assess the various risk levels of eligible securities and asset-backed securities; and
- apply a portion of the net proceeds from the Global Offering, our internal funds and other future sources of financing (including, but not limited to, the issuance of subordinated corporate bonds, short-term notes and borrowings from banks and other financial institutions) to actively expand the scale of our margin financing and securities lending and other capital-based intermediary businesses to ensure stable return on our equity.

Continue to expand the scale of our proprietary trading business

We intend to further expand the scale of our proprietary trading business by effectively utilizing a portion of the net proceeds from the Global Offering. In addition, we intend to continue to diversify our investment portfolio to achieve higher rate of return and to reduce volatility. Specifically, we intend to implement the following strategies:

- in order to diversify our investment portfolio and effectively manage our risk exposure, in addition to investing in companies listed on the main boards of the PRC stock exchanges, we intend to invest in eligible companies listed on the SME Board and the ChiNext Board, as well as those quoted on the NEEQ based on prevailing market trends and our investment objectives. We will establish a balanced stock investment structure that focuses primarily on investing in the secondary market and is supplemented by our selective investments in connection with domestic IPOs. Meanwhile, we will strictly manage and control risks by utilizing hedging instruments, such as stock index futures;
- with respect to fixed income investments, we will strengthen our intermediary businesses, including, among others, matching-based business, so as to enhance the investment and

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trading experience and capabilities of our investment personnel and thereby, gradually increase the investment return on our fixed income investments; and

- through the development of sequenced trading and futures-and-cash arbitrage model to achieve more attractive investment return.

Further develop Internet trading, expand sales channels, improve platform construction and emphasize on Internet trading product innovation

As more investors in the PRC utilize the Internet and mobile devices to open accounts and/or make trades, we believe conducting securities business via the Internet and/or mobile platform can not only improve the efficiency of providing financial services to our customers but also allow us to better meet their diversified demands. Moreover, we can study customers' investment behavior from large amount of transaction data we collect and provide more specific product information, investment news and other value-added services to better serve our clients and improve customer loyalty. Accordingly, we have combined our traditional businesses with the Internet and built an Internet trading services platform for a variety of business transactions, including online account opening, online trading and conducting other financial services online. Internet trading services platform connects all of our branches, allows us to extend customer reach beyond the barriers of physical branches and reduce our overall operating costs. Approximately 33.0% of our new brokerage customers in 2014 opened their accounts online. We will continue to focus on growing our Internet trading business, such as developing programs that enable our customers to engage in credit transactions businesses, and further enhance our online product and service offerings through the improvements we make in connection with the construction and implementation of such Internet trading services platform. In particular, we intend to develop the following applications to enhance the capability of our Internet trading channels:

- inspired by the concept of "Motif Investing," develop a "Guolian Stock" application that primarily focuses on theme investment;
- develop a "Guolian Wealth Management" application that leverages on the different types of wealth management products and plans we offer and provides quick online access to wealth management services to our customers; and
- develop a "Guolian Quantitative Trading" application that focuses on providing easy access to quantitative trading for our customers.

In addition to the foregoing, we plan to upgrade our hardware systems and adjust our existing operational approaches to further reinforce the combination of our traditional businesses and information technology. We will also explore new business models in accordance with our investment and financing needs and prevalent market conditions, such as P2P, crowd financing and O2O, to establish a comprehensive and innovative Internet trading business. Through these measures, we aim to expand the functionality of our Internet trading services platform and offer a variety of products and services to meet our clients' investment and financing needs. To enhance client loyalty, we will also create a personalized service model which offers clearing, settlement, trading, data collection and mining services. Furthermore, we have cooperated and may continue to cooperate with Internet companies to tap into their vast customer base and leverage on our industry knowledge and experience to develop multi-tiered products and services that we believe are more attractive.

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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"> ● Securities brokerage ● Other services |
| Investment banking | <ul style="list-style-type: none"> ● Equity financing ● Debt financing ● Financial advisory ● OTC Market |
| Asset management and investment | <ul style="list-style-type: none"> ● Asset management ● Direct investment |
| Credit transactions | <ul style="list-style-type: none"> ● Margin financing and securities lending ● Securities-backed lending ● Securities repurchase |
| Proprietary trading | <ul style="list-style-type: none"> ● Trading of bonds, stocks, funds and derivative products on our own account |

The following table sets forth our revenue and other income from each of our principal business lines and their respective percentages of our total revenue and other income for the periods indicated:

| | Year ended December 31, | | | | | |
|---------------------------------|-------------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2012 | | 2013 | | 2014 | |
| | (RMB in millions) | % | (RMB in millions) | % | (RMB in millions) | % |
| Brokerage | 501.2 | 64.9 | 678.0 | 62.8 | 856.4 | 40.2 |
| — Securities brokerage | 489.0 | 63.3 | 635.6 | 58.9 | 838.0 | 39.3 |
| — Other services | 12.2 | 1.6 | 42.4 | 3.9 | 18.4 | 0.9 |
| Investment banking | 165.4 | 21.4 | 144.1 | 13.3 | 363.7 | 17.1 |
| Asset management and investment | 21.9 | 2.8 | 13.0 | 1.2 | 221.6 | 10.4 |
| Proprietary trading | 49.0 | 6.3 | 160.5 | 14.9 | 462.9 | 21.7 |
| Credit transactions | 4.2 | 0.5 | 67.5 | 6.3 | 204.4 | 9.6 |
| Others ⁽¹⁾ | 32.6 | 4.3 | 16.4 | 1.5 | 26.7 | 1.2 |
| Inter-segment elimination | (1.9) | (0.2) | — | — | (4.1) | (0.2) |
| Total | <u>772.4</u> | <u>100.0</u> | <u>1,079.5</u> | <u>100.0</u> | <u>2,131.6</u> | <u>100.0</u> |

Note:

(1) Includes (i) interest income from our own bank deposits; and (ii) investment gains we made as a result of the liquidity management measures conducted by our headquarters.

Brokerage

Our brokerage business engages in the following key activities:

- *Securities brokerage:* We act as agent to our customers in the trading of stocks, funds and bonds; and

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- *Other services*: In addition to traditional securities brokerage business, we also provide other value-added services authorized by the PRC regulatory authorities, which include the sales of financial products through our securities branch network (mainly including the sales of our self-developed asset management products and sales of third-party financial products, such as fund products and trust products, on a commission basis), and providing futures IB services as well as investment advisory services to our clients.

As of December 31, 2014, through our 55 securities branches in Jiangsu province and elsewhere in China, including Beijing, Shanghai, Zhejiang, Guangdong, Hunan, Shandong, Sichuan, Jiangxi, Chongqing, Guangxi and Liaoning, we provided securities brokerage services to over 584,500 retail clients and approximately 1,500 institutional customers, among which, nearly 50.0% were active clients.

The following table sets forth the segment revenue and other income from our securities brokerage and other services for the periods indicated:

| | Year ended December 31, | | | | | |
|-------------------------------------|-------------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2012 | | 2013 | | 2014 | |
| | (RMB in millions) | % | (RMB in millions) | % | (RMB in millions) | % |
| Securities brokerage | 489.0 | 97.6 | 635.6 | 93.7 | 838.0 | 97.9 |
| Other services ⁽¹⁾ | 12.2 | 2.4 | 42.4 | 6.3 | 18.4 | 2.1 |
| Total | <u>501.2</u> | <u>100.0</u> | <u>678.0</u> | <u>100.0</u> | <u>856.4</u> | <u>100.0</u> |

Note:

(1) Other services include sales of self-developed asset management products and sales of third-party financial products on a commission basis, futures IB business and investment advisory business.

Securities Brokerage

We provide traditional securities brokerage services to our customers. Traditional securities brokerage includes acting as agent to our customers in the trading of various securities, including:

- *Stocks*: Stocks of companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as well as the eligible stocks listed on the Stock Exchange through recently launched Shanghai-Hong Kong Stock Connect;
- *Funds*: Listed funds, including ETFs and LOFs; and
- *Bonds*: Bonds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, including treasury bonds, corporate bonds (bonds issued by listed companies) and convertible bonds.

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

| | Year ended December 31, | | | | | |
|----------------------------|-------------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|
| | 2012 | | 2013 | | 2014 | |
| | Trading volume | Market share ⁽¹⁾ | Trading volume | Market share ⁽¹⁾ | Trading volume | Market share ⁽¹⁾ |
| | (RMB in millions) | (%) | (RMB in millions) | (%) | (RMB in millions) | (%) |
| Securities | | | | | | |
| Stocks | 343,676.5 | 0.5 | 514,583.5 | 0.6 | 820,283.4 | 0.6 |
| Funds | 4,938.0 | 0.3 | 5,811.1 | 0.2 | 10,040.9 | 0.1 |
| Bonds ⁽²⁾ | 1,185.9 | 0.1 | 1,474.2 | — | 1,619.3 | — |
| Total | <u>349,800.4</u> | <u>0.5</u> | <u>521,868.8</u> | <u>0.5</u> | <u>831,943.6</u> | <u>0.5</u> |

Notes:

(1) Market share is calculated based on total trading volume published by the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

(2) Excluding bond repurchases.

Our securities brokerage business has been one of our core businesses. Our securities brokerage clients consist of retail clients and institutional clients. As of December 31, 2012, 2013 and 2014, the trading volume of our retail clients represented 96.7%, 97.4% and 98.9% of our total securities brokerage trading volume, respectively.

Historically, segment revenue and other income from our securities brokerage business has represented the largest source of our total revenue and other income. In 2012, 2013 and 2014, segment revenue and other income from our securities brokerage business amounted to RMB501.2 million, RMB678.0 million and RMB856.4 million, respectively, representing 64.9%, 62.8% and 40.2% of our total revenue and other income during those years, respectively. Our average securities brokerage commission rate in 2012, 2013 and 2014 was 0.102%, 0.092% and 0.074%, respectively. Segment revenue and other income from our securities brokerage as a percentage of our total revenue and other income decreased during the Track Record Period mainly as a result of our efforts to diversify our services platform by focusing on the expansion of other business segments, such as investment banking, asset management, credit transactions and proprietary trading.

Our securities brokerage business has achieved the leading position in Jiangsu province and Wuxi. According to Wind Info, as of December 31, 2013, there were 66 and 23 PRC securities firms that have established branches in Jiangsu province and Wuxi, respectively. As of the same date, we ranked third and first, respectively, in term of the trading volume of agency sale of securities in Jiangsu province and Wuxi, representing 8.8% and 45.1% market share, respectively. In recent years, we also received the following awards and recognition for our securities brokerage business:

- “2013 Investor Education Organizational Excellence Award” by SAJS;
- “2012 Investor Education Organizational Excellence Award” by SAJS; and
- “2011 Securities Firm Investor Education and Service Outstanding Company Award” by SAC.

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Other Services

In addition to traditional securities brokerage services, we also provide other value-added services to our clients based on their particular needs, which include the sales of financial products, futures IB business and investment advisory services.

Sales of Financial Products

Since December 2009, we have commenced the sales of our self-developed asset management products through our branch network. In addition, in June 2004, we obtained the qualification to sell, on a commission basis, third party fund products, such as equity funds, currency funds and bond funds. In January 2013, we became qualified to engage in agency sale of more diverse financial products offered by third-party financial institutions, such as trust products developed by trust companies. Revenue from the sales of financial products was RMB2.7 million, RMB10.8 million and RMB16.6 million in 2012, 2013 and 2014, respectively.

The sales volume of our self-developed asset management products, which were sold through our securities branches or directly to institutional customers, was approximately RMB484.3 million, RMB14,633.8 million and RMB22,264.4 million in 2012, 2013 and 2014, respectively. Our sales volume of third-party financial products was RMB2,210.8 million, RMB2,148.1 million and RMB3,320.6 million in 2012, 2013 and 2014, respectively. In 2012, all of the third-party financial products we sold on a commission basis were fund products. In 2013 and 2014, the sales volume from our sales of third-party fund products (principally currency funds, stock funds and bond funds) on a commission basis amounted to approximately RMB1,939.1 million and RMB2,481.7 million, respectively, representing 79.1% and 71.2%, respectively, of all the third-party financial products we sold on a commission basis during the same periods. With respect to the sales of third-party fund products, we typically enter into framework sales agency agreements with the fund companies. Pursuant to such agreement, the relevant fund company agrees to notify us a particular fund before it opens for subscription, and we agree to sell, on a commission basis, such designated fund product by providing a written confirmation to the fund company setting forth the fund name and the date we expect to commence sale. The framework agreement usually expires at the end of the year during which it was entered into between the parties, and is subject to one year automatic renewal, unless expressly terminated by either party at least one month before the initial expiration date. The framework agreement also sets forth commission and fee arrangement between the fund company and us, including the split mechanism involving the subscription fee, application fee, redemption fee and sales service fee, among others.

In 2013 and 2014, the total sales volume from our sales of third-party trust schemes on a commission basis amounted to RMB448.8 million and RMB957.3 million, respectively, representing 20.9% and 28.8% of all third-party financial products we sold during the same periods, respectively. These 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 generally focus on selecting prudent and high-quality trust schemes issued by reputable trust companies with substantial capital and sound operating history. We conduct thorough background review on trust companies and carefully select third-party trust schemes for sale. Meanwhile, we plan to 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.” For the sales of third-party trust

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products, we generally enter into master sales agency agreements with the relevant trust companies. According to the master sales agency agreement, we will act as an agent to the third-party trust company and sell its trust products to potential investors for a fee. The master agreement usually expires one year after the date it is entered into, and is subject to one-year automatic renewal unless expressly terminated by either party at least 30 days prior to initial expiration. The parties also agree to confirm the sale of each trust product through a supplemental agreement, which sets forth, among other things, the name of the particular trust scheme to be sold by us and the agency sales commission payable by the trust company to us based on a percentage of the aggregate amount of the trust scheme we sell to investors. The payment is generally made within three months after the effectiveness of the supplemental agreement, and is either payable in a lump sum or through several designated installments.

During the Track Record Period, we did not engage in any incident of mis-selling or discover other improper conduct by our sales employees in selling our self-developed asset management products and third-party financial products. As a result, we believe that our internal control measures relating to the sales of these products have been effective. In addition, we believe that continued enhancement of our internal control and risk management of the sales of self-developed asset management products and third-party financial products and the development of the Internet trading services platform will enable us to satisfy our clients' increasing appetite for diverse financial products and services.

Futures IB Business

We have introduced our securities brokerage customers who were interested in futures brokerage services to Guolian Futures since 2008. We have entered into agreements with Guolian Futures during the Track Record Period pursuant to which we refer our clients to Guolian Futures. In return, Guolian Futures agrees to pay us introduction fees for clients we refer, which are payable to us semi-annually on an aggregate basis. The introduction fees typically equaled to 50% to 70% of the net income from futures brokerage generated by the clients we refer to Guolian Futures. For the years ended December 31, 2012, 2013 and 2014, fees generated from our futures IB business amounted to RMB1.7 million, RMB1.9 million and RMB1.2 million, respectively. We expect to continue to provide futures IB services to our customers in order to satisfy their diversified wealth management needs. For further details of Guolian Futures and its relationship with us and Guolian Group, please refer to "History and Corporate Structure—Major Acquisitions and Disposals."

Investment Advisory Services

In order to maintain customer satisfaction and improve customer retention, we have provided investment advisory services to our clients. These services include providing securities and securities-related investment advice, which primarily consists of professional advice on the types of securities to be invested, analyses on potential portfolio of investments that aim to accurately reflect clients' particular risk tolerance and expected returns, and recommendations on wealth management planning. Our financial advisors follow our internal procedures and guidelines and provide investment advice to clients with prudence and care, and they work closely with our compliance and risk control department and research department to provide value-added services. As of December 31, 2012, 2013 and 2014, we had five, seven and seven securities branches that provided investment advisory services, respectively.

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Futures Brokerage

We provided futures brokerage services through Guolian Futures when it was our majority-owned subsidiary from 2007 until August 2013 when we disposed of all of our equity interest in Guolian Futures to Guolian Group. For further details of Guolian Futures and its relationship with us and Guolian Group, please refer to “History and Corporate Structure—Major Acquisitions and Disposals.” We offered all of the futures products available in China, including 44 commodity futures, such as agricultural products, gold, chemical products and metals, and two financial futures, namely, stock index futures and treasury-bond futures. In 2012 and the first eight months of 2013, profits from our futures brokerage business, which was discontinued, amounted to RMB45.5 million and RMB13.0 million, respectively. We do not expect to directly provide any futures brokerage services to our customers in the near future.

Brokerage Commission and Fee Income

We receive commission and fee income from customers who trade securities through our trading platforms. Our brokerage commission and fee income during the Track Record Period did not include commission and fee income from our futures brokerage business, which was discontinued in 2013. The following table sets forth the total brokerage trading volume and commission from our securities brokerage and the average securities brokerage commission rates for the years indicated:

| | Year ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2012 | 2013 | 2014 |
| Securities brokerage (stocks, funds and bonds) | | | |
| Trading volume (<i>RMB in millions</i>) | 349,800.4 | 521,868.8 | 831,943.6 |
| Commission (<i>RMB in millions</i>) | 357.8 | 480.2 | 612.0 |
| Average securities brokerage commission rate ⁽¹⁾ | 0.102% | 0.092% | 0.074% |

Note:

(1) Average securities brokerage commission rate = commission on the trading of stocks, funds and bonds / trading volume of stocks, funds and bonds.

Due primarily to the intense competition in the brokerage market in Wuxi and Jiangsu province, as well as the growth of Internet trading business among PRC securities firms, our securities brokerage commission rates have decreased during the Track Record Period. As more PRC securities firms began to develop and expand the Internet trading business to enhance customer reach and reduce operating costs, we believe the average securities brokerage commission rates in China may continue to decrease in the near future. At the same time, we cannot assure you that we can maintain our commission and fee income from securities brokerage business due to the volatility of trading volume. Please see “Risk Factors—Risks Relating to Our Business and Industry—We generate a significant portion of our revenue from our securities brokerage business. If we fail to sustain our brokerage commissions and fees, our results of operations and financial condition could be materially and adversely affected.”

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

- transition of our traditional business model to a more diversified wealth management business model to optimize our revenue structure and expand our sources of income;
- establishing more “light branches” to increase our operational efficiency;

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- transforming our securities branches from traditional brokerage branches to comprehensive securities and financial services platforms that provide integrated investment and financing services and expand our client coverage;
- enhancing Internet-based client development and service capabilities, such as strengthening our Internet trading services platforms, to provide convenient electronic securities services to enhance customer satisfaction, including online account opening for our customers, which will enable us to extend customer reach beyond the physical boundaries of our branch network; and
- differentiating customers based on their risk profiles and wealth management needs in order to increase the range and diversification of our products and services.

Clients

We believe our large and stable brokerage customer base is the foundation of our growth. As of December 31, 2014, we had over 584,500 retail clients and approximately 1,500 institutional clients in our securities brokerage business, nearly 50.0% of which were active clients. Our client base grew from approximately 544,800 as at December 31, 2012 to approximately 586,000 as at December 31, 2014. We initiated an online account opening function on our Internet trading platform in November 2013, and in 2014, approximately 33.0% of our new brokerage customers have opened their accounts via such platform. The following table sets forth our brokerage business by type of client as of the dates indicated:

| | As of December 31, | | |
|-------------------------------------|--------------------|-------|-------|
| | 2012 | 2013 | 2014 |
| | (in thousands) | | |
| Securities Brokerage Clients | | | |
| Retail clients | 543.4 | 555.3 | 584.5 |
| Institutional clients | 1.4 | 1.4 | 1.5 |
| Total clients | 544.8 | 556.7 | 586.0 |

The following table sets forth the number of active clients we had for our securities brokerage business as of the dates indicated:

| | As of December 31, | | |
|--|--------------------|-------|-------|
| | 2012 | 2013 | 2014 |
| | (in thousands) | | |
| Active Securities Brokerage Clients | | | |
| Retail clients | 294.2 | 274.4 | 279.7 |
| Institutional clients | 0.6 | 0.5 | 0.4 |
| Total active clients | 294.7 | 274.9 | 280.1 |

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We cultivate customer loyalty and maintain enduring and stable relationships with our clients. The following table sets forth our securities brokerage clients in terms of account age as of the dates indicated:

| | As of December 31, | | | | | |
|---------------------------|--------------------|--------------|--------------|--------------|--------------|--------------|
| | 2012 | (%) | 2013 | (%) | 2014 | (%) |
| | (in thousands) | | | | | |
| Account Age | | | | | | |
| ten years and above | 231.9 | 42.6 | 239.1 | 42.9 | 249.9 | 42.6 |
| five to ten years | 149.3 | 27.4 | 167.0 | 30.0 | 196.9 | 33.6 |
| one to five years | 147.9 | 27.1 | 135.0 | 24.3 | 106.2 | 18.2 |
| less than one year | 15.7 | 2.9 | 15.6 | 2.8 | 33.0 | 5.6 |
| Total | <u>544.8</u> | <u>100.0</u> | <u>556.7</u> | <u>100.0</u> | <u>586.0</u> | <u>100.0</u> |

We have made maintaining customer loyalty a priority and have been successful in doing so during the Track Record Period. As of December 31, 2014, approximately 76.2% of our clients have maintained business relationships with us for more than five years, representing an increase from 70.0% as of December 31, 2012, and approximately 42.6% of our clients have maintained business relationships with us for more than ten years. Moreover, as of December 31, 2014, approximately 71.2% of our active clients have maintained business relationship with us for more than five years and 35.2% of them for more than ten years. The following table sets forth our active clients in terms of account age as of the dates indicated:

| | As of December 31, | | | | | |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|
| | 2012 | (%) | 2013 | (%) | 2014 | (%) |
| | (in thousands) | | | | | |
| Account Age for Active Securities Brokerage Clients | | | | | | |
| — ten years and above | 102.7 | 34.9 | 97.1 | 35.3 | 98.7 | 35.2 |
| — five to ten years | 88.2 | 29.9 | 88.0 | 32.0 | 100.9 | 36.0 |
| — one to five years | 95.8 | 32.5 | 79.9 | 29.1 | 58.8 | 21.0 |
| — less than one year | 8.0 | 2.7 | 9.9 | 3.6 | 21.7 | 7.8 |
| Total | <u>294.7</u> | <u>100.0</u> | <u>274.9</u> | <u>100.0</u> | <u>280.1</u> | <u>100.0</u> |

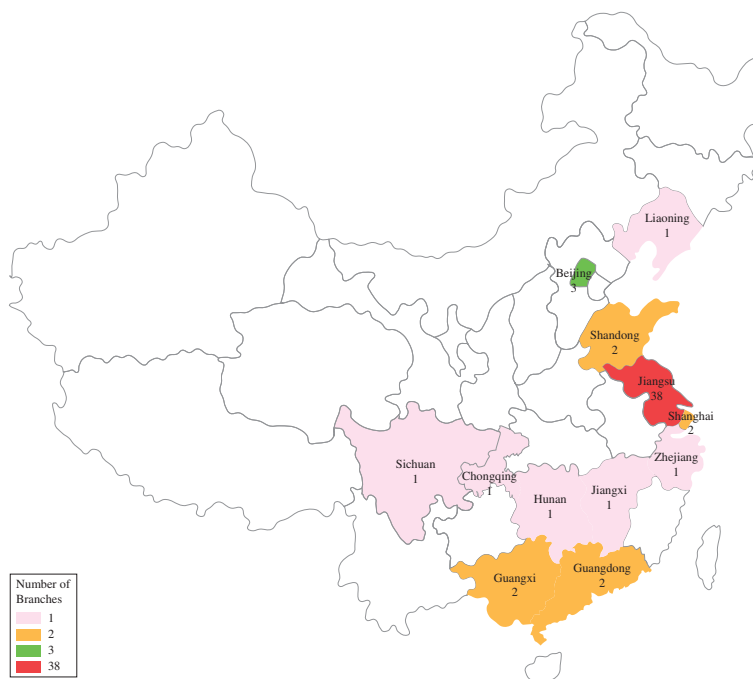
Many of our securities brokerage clients are individuals and corporations who opened their accounts with us through our branch network in Jiangsu province. As of December 31, 2012, 2013 and 2014, excluding those clients who opened accounts online through our Internet trading services platform, approximately 90.0%, 89.5% and 87.6% of our securities brokerage clients opened their accounts at our securities branches in Jiangsu province, respectively. See “Risk Factors—Risks relating to Our Business and Industry—We face the risks of concentration of customer and business in Wuxi and Jiangsu province.”

Branch Network and Trading Platforms

According to Wind Info, we have the most extensive branch network coverage in Wuxi among all PRC securities firms that have branches there. As of December 31, 2012, 2013 and 2014, we had 38, 48 and 55 securities branches, respectively, covering nine provinces and three municipalities in China, i.e., Beijing, Shanghai and Chongqing. Our branch network in Jiangsu province covers most of the prefecture-level cities in the province with strategic focus in Wuxi. We expect to continue to

expand our securities branch network in line with our growth objectives. The following diagram illustrates the cities serviced by our branch network as of the Latest Practicable Date:

Securities Branch Distribution in China in 2015



With the deregulation of PRC requirements on securities branches in terms of scale, region and on-site trading facilities, we began establishing “light branches” since 2013. A “light branch” is usually less than 300 sq.m. in size and requires less than RMB1.0 million in set-up cost. It does not offer on-site trading counters and is not equipped with on-site IT system. It also focuses more on client coverage and has fewer on-site staff for enhanced operating efficiency. We have set up ten “light branches” in 2013 in Wuxi and five additional “light branches” in Jiangsu province and one each in Sichuan and Liaoning provinces in 2014. We believe “light branches” enable us to establish our presence and network coverage more quickly with minimum capital expense.

In addition to setting up “light branches,” we have also been transitioning our securities branches from conventional branches to comprehensive securities and financial services centers that provide integrated investment and financing services. We completed the transition of 38 key securities branches within our network in 2014.

During the Track Record Period, in addition to 55 securities branches across the country, we have also established four regional branch offices in Beijing, Shanghai and Wuxi to manage securities branches in these cities and provide financial advisory services associated with proprietary trading and securities investment. In February 2015, our Board approved to expand the services carried out at these regional branch offices, including, among others, securities brokerage, securities investment consultancy, financial advisory services associated with proprietary trading and securities investment, sales of our self-developed asset management products, sales of third-party financial products on a commission basis, futures IB and margin financing and securities lending businesses.

We provide clients with a variety of trading platforms. Our clients can trade at physical trading counters or terminals at our securities branches, or trade remotely via telephone, computer or mobile devices (such as mobile phones and tablets). Online trading has become the primary trading method for

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our securities brokerage clients. In 2014, our online trading volume (including mobile trading volume) accounted for approximately 90.6% of our total securities brokerage trading volume.

We have established an Internet trading services platform, which provides online account opening, online trading and other financial services and functions. Such platform allows us to expand customer reach beyond the physical boundaries of our securities branches and lower our operating costs. We believe that together with our physical branches, our Internet trading services platform is complementary in delivering targeted customer sales and marketing, providing customer-friendly experience, increasing the range of our products and service offerings and enhancing transaction convenience. See “Risk Factors—Risks Relating to Our Business and Industry—We face additional risks as we expand our product and service offerings.”

Marketing and Customer Services

Our sales and marketing team consists primarily of financial advisors and securities brokerage agents who are not our employees. Financial advisors’ remuneration includes a base salary and performance-based salary while securities brokerage agents only receive performance-based remuneration. As of December 31, 2014, we had over 300 financial advisors and more than 500 securities brokerage agents. Amidst intense market competition, it is our primary focus to develop stable sources of customers in order to increase our market penetration. In addition, we intend to enhance the quality of the services we provide so that we can expand our capable and experienced wealth management team to provide various other value-added and differentiated services. We primarily source our customers through (i) community brand building, such as service caravan; (ii) cross-selling opportunities with third-party banks, futures firms and trust companies with whom we have had prior business relationships; (iii) promotions and advertisement through various media channel outlets, such as the Internet, television and radio, distribution of printed brochures and advertisements; and (iv) investor education seminars and financial forums.

We typically divide our customers into 11 categories based on the amount of assets held with us and the frequency of their trading activities. We have designed four targeted customer wealth management service packs, which are assigned to different categories of customers based on our customer classification structure, Ruyitong (如意通), Ruyibao (如意寶), Ruyixing (如意行) and Jinruiyi (金如意), each of which combines different types of research, market information and services into one comprehensive service package, to better serve their needs. We strive to meet clients’ needs through high-quality customer services. In addition to our website, we provide real-time assistance through our customer service hotline “95570,” including answering inquiries about financial products and services, trading rules and account status. The customer service hotline offers live assistance, voice-activated automated service and online service, depending on the needs of our customers. In addition, we also provide brokerage clients with our investment analysis and recommendations of stocks, bonds, funds and other financial products via text messages and emails. To increase customer loyalty and promote customized services, we assign dedicated financial advisors to provide personalized brokerage and other services to customers in need.

Investment Banking

We provide equity financing, debt financing and financial advisory services mainly through Hua Ying Securities, our majority-owned subsidiary. In addition, we directly provide listing and referral services as chief agency broker to help companies enter into the NEEQ. Our investment

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banking business focuses primarily on SMEs that demonstrate significant growth potential. Our investment banking business experienced substantial growth during the Track Record Period. For the years ended December 31, 2012, 2013 and 2014, segment revenue and other income from our investment banking business amounted to RMB165.4 million, RMB144.1 million and RMB363.7 million, respectively, representing 21.4%, 13.3% and 17.1% of our total revenue and other income during those periods, respectively.

Equity Financing

We sponsor and underwrite IPOs and secondary offerings, principally private placements. We had 19 sponsor representatives and an additional 15 prospective sponsor representatives as of the Latest Practicable Date. We receive underwriting commissions based on the size and type of financing, duration of our engagement and complexity of the transaction as well as market conditions. We also receive sponsors fees for the transactions we sponsor. Our underwriting and sponsors fees from our equity financing business amounted to RMB28.4 million, RMB23.8 million and RMB197.7 million in 2012, 2013 and 2014, respectively, representing 17.2%, 16.5% and 54.4% of the segment revenue and other income of our investment banking business during the same periods, respectively.

During the Track Record Period, we completed five private placement transactions, underwriting an aggregate amount of RMB6.0 billion, and one follow-up equity financing project relating to an M&A and reorganization transaction, underwriting an amount of RMB450.0 million. As of the Latest Practicable Date, two of our private placement transactions were completed in the first two months of 2015, two transactions were examined and approved by the CSRC and three projects were under review by the CSRC. We did not sponsor any IPO transaction in 2012 and 2013 mainly due to a temporary suspension of equity financing through IPO imposed by the CSRC. This suspension was subsequently lifted in January 2014. As at the Latest Practicable Date, three IPO projects we sponsor were under review by the CSRC and an additional six IPO projects were in the initial stages of the transaction.

During the Track Record Period, our equity financing clients were listed companies involved in a variety of industry sectors, such as textile, copper production, thermo-electricity, real estate and electronics. We intend to continue to focus on providing underwriting and sponsorship services to SMEs that demonstrate significant growth potential.

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

| Year | Nature of Offering | Issuer | Underwriting Amount | Industry | Stock Exchange | Commission Rate |
|-------------------|--------------------|--|---------------------|--------------------|----------------|-----------------|
| (RMB in millions) | | | | | | |
| 2012 | Private placement | Jingwei Textile Machinery Co., Ltd.* (經緯紡織機械股份有限公司) | 937.1 | Textile | Shenzhen | 2.80% |
| 2013 | Private placement | Anhui Xinke New Materials Co., Ltd.* (安徽鑫科新材料股份有限公司) | 908.2 | Copper production | Shanghai | 2.28% |
| 2014 | Private placement | Ningbo Thermal Power Co., Ltd.* (寧波熱電股份有限公司) | 1,199.8 | Thermo-electricity | Shanghai | 3.06% |
| 2014 | Private placement | Deluxe Family Co., Ltd.* (華麗家族股份有限公司) | 1,700.0 | Real estate | Shanghai | 4.71% |
| 2014 | Private placement | Jiangyin Changdian Technology Co., Ltd.* (江陰長電科技股份有限公司) | 1,250.0 | Electronics | Shanghai | 4.84% |

Debt Financing

In our debt financing business, we underwrite primarily enterprise bonds, corporate bonds, SME private placement bonds and other bonds such as financial bonds issued by commercial banks and securities companies. We also distribute bonds issued by a variety of entities, including municipal bonds issued by local governments or financial institutions incorporated by local governments in Jiangsu province, and corporate bonds. We had anticipated the rapid development of the PRC bond underwriting market in 2012 and 2013 partly due to the suspension of IPO reviews by the CSRC, and our debt financing business had expanded accordingly, with a total debt amount underwritten by us as a lead underwriter increasing from RMB3.5 billion in 2012 to RMB4.7 billion in 2013 and further to RMB8.9 billion in 2014. In 2012, 2013 and 2014, the underwriting commission derived from our debt financing business amounted to RMB51.5 million, RMB59.5 million and RMB72.4 million, respectively, representing 31.1%, 41.3% and 19.9% of the segment revenue and other income of our investment banking business in the same periods. During the Track Record Period, we, as a lead underwriter, have completed 29 debt financing transactions, with an aggregate underwritten amount of approximately RMB17.2 billion.

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

| Year | Issuer | Underwritten Amount | Industry | Type | Interest Rate |
|-------------------|---|---------------------|----------------|------------------|---------------|
| (RMB in millions) | | | | | |
| 2012 | Qiangdong Nanzhou Development and Investment Co., Ltd.* (黔東南州開發投資有限責任公司) | 1,180.0 | Infrastructure | Enterprise bonds | 8.80% |
| 2012 | Xinyang Huaxin Investment Group Co., Ltd.* (信陽華信投資集團有限責任公司) | 980.0 | Infrastructure | Enterprise bonds | 6.95% |

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| Year | Issuer | Underwritten Amount | Industry | Type | Interest Rate |
|-------------------|---|------------------------|---------------------|------------------|------------------|
| (RMB in millions) | | | | | |
| 2012 | Baotai Group Co., Ltd.* (寶鈦集團有限公司) | 700.0 | Titanium Industrial | Enterprise bonds | 5.40% |
| 2012 | Jiangsu Xishan Economic Development Zone Development Corporation* (江蘇省錫山經濟開發區開發總公司) | 680.0 | Infrastructure | Enterprise bonds | 6.99% |
| 2013 | Zhangjiagang Bonded Technology Co., Ltd.* (張家港保稅科技股份有限公司) | 350.0 | Logistics | Corporate bonds | 5.50% |
| 2013 | Wuxi Urban Development Group Limited* (無錫城市發展集團有限公司) | 1,050.0 | Infrastructure | Enterprise bonds | 6.10% |
| 2013 | Jiangsu Jinqiao Yanhua Group Co., Ltd.* (江蘇金橋鹽化集團有限責任公司) | 500.0 | Salt | Enterprise bonds | 6.10% |
| 2013 | Shaanxi Nonferrous Metals Holding Group Co., Ltd.* (陝西有色金屬控股集團有限責任公司) | 1,500.0 | Nonferrous metals | Enterprise bonds | 4.88% |
| 2013 | Jiangyin High-tech Zone Investment and Development Co., Ltd.* (江陰高新區投資開發有限公司) | 800.0 | Infrastructure | Enterprise bonds | 6.60% |
| 2013 | The First Phase Wuwei Economic Development and Investment (Group) Co., Ltd.* (第一期武威市經濟開發投資(集團)有限公司) | 500.0 | Infrastructure | Enterprise bonds | 8.20% |
| 2014 | Zouping County State-owned Asset Investment and Operation Co., Ltd.* (鄒平縣國有資產投資經營有限公司) | 800.0 | Infrastructure | Enterprise bonds | 7.30% |
| 2014 | Laiwu Economic Development and Investment Co., Ltd.* (萊蕪市經濟開發投資有限公司) | 650.0 | Infrastructure | Enterprise bonds | 7.08% |
| 2014 | The First Phase Shandong Hongqiao New Materials Co., Ltd.* (第一期山東宏橋新型材料有限公司) | 1,200.0 | Aluminum making | Enterprise bonds | 8.69% |
| 2014 | Qingdao Chengyang Development and Investment Co., Ltd.* (青島城陽開發投資有限公司) | 1,050.0 | Infrastructure | Enterprise bonds | 7.09% |
| 2014 | Shandong Century Sunshine Paper Group Co., Ltd.* (山東世紀陽光紙業集團有限公司) | 500.0 | Papermaking | Enterprise bonds | 8.19% |
| 2014 | The Second Phase Wuwei Economic Development and Investment (Group) Co., Ltd.* (第二期武威市經濟開發投資(集團)有限公司) | 800.0 | Infrastructure | Enterprise bonds | 8.20% |

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| Year | Issuer | Underwritten Amount | Industry | Type | Interest Rate |
|-------------------|---|------------------------|----------------|-------------------------|------------------|
| (RMB in millions) | | | | | |
| 2014 | Shaanxi Ankang High-tech Industrial Development and Investment (Group) Co., Ltd.* (陝西安康高新產業發展投資(集團)有限公司) | 900.0 | Infrastructure | Enterprise bonds | 8.78% |
| 2014 | Dujiangyan Sunshine Travel Development Co., Ltd.* (都江堰市陽光旅遊發展有限責任公司) | 400.0 | Tourism | Private placement bonds | 7.50% |
| 2014 | Jiangsu Jinxin Building Materials Co., Ltd.* (江蘇金鑫建材有限公司) | 150.0 | Manufacturing | Private placement bonds | 9.40% |
| 2014 | Henan Tianrun Package Co., Ltd.* (河南天潤包裝有限公司) | 30.0 | Manufacturing | Private placement bonds | 9.40% |
| 2014 | Shenyang Jinhe Concrete Co., Ltd.* (瀋陽金河混凝土有限公司) | 40.0 | Manufacturing | Private placement bonds | 9.00% |
| 2014 | Huzhou Lihua Yujie Union Textile Co., Ltd.* (湖州厲華好捷聯合紡織有限公司) | 260.0 | Manufacturing | Private placement bonds | 9.35% |
| 2014 | Wuhu Zhongyuan Steel Structure Co., Ltd.* (蕪湖翠源鋼構有限公司) | 80.0 | Manufacturing | Private placement bonds | 9.35% |
| 2014 | Shandong Tiantai Steel Co., Ltd.* (山東天泰鋼塑有限公司) | 160.0 | Manufacturing | Private placement bonds | 9.35% |
| 2014 | Chongzhou Xinglv Scenic Area Management Co., Ltd.* (崇州市興旅景區管理有限公司) | 300.0 | Tourism | Private placement bonds | 8.00% |
| 2014 | Wuxi Rural Commercial Bank Co., Ltd.* (無錫農村商業銀行股份有限公司) | 100.0 | Finance | Financial bonds | 6.26% |
| 2014 | Guolian Securities Co., Ltd.* (國聯證券股份有限公司) | 1,500.0 | Finance | Financial bonds | 6.20% |

We charge underwriting commissions in respect of the debt financing transactions based on comparable market fee rates, size of financing and prevailing market conditions. As part of our business strategy and consistent with recent PRC regulatory change that supports the private placement of bonds, including, but not limit to, private placement bonds that have large market potential and multiple issuing models, we plan to further develop our private placement business of corporate bonds. We believe such regulatory change will likely drive the rapid growth of private placement debt in China and create new growth opportunities for the PRC securities industry.

Financial Advisory Services

We provide a variety of financial advisory services to our customers, including M&A and corporate restructuring of listed companies, restructuring and reorganization of private companies, and IPO restructuring and guidance services. We charge financial advisory fees based on the type and size of the transactions as well as specific terms of each assignment.

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Our fee income for financial advisory services was approximately RMB6.2 million, RMB13.0 million and RMB18.3 million for the years ended December 31, 2012, 2013 and 2014, respectively, accounting for 3.7%, 9.0% and 5.0%, respectively, of the segment revenue and other income of our investment banking business during the same periods. During the Track Record Period, we served as the financial advisor in over 50 transactions, including the following landmark transactions:

- in 2013 and 2014, we acted as the independent financial advisor for major asset restructuring transactions involving XJ Electric Co., Ltd.* (許繼電氣股份有限公司) with a contractual value of RMB1,932.0 million;
- in 2014, we acted as the independent financial advisor for Shenzhen Hepalink Pharmaceutical Co., Ltd.* (深圳市海普瑞藥業股份有限公司) for major asset restructuring transactions with a contractual value of RMB2,031.5 million; and
- in 2014, we acted as the independent financial advisor for the major asset restructuring by Zhongyuan Xiehe Stem Cells Biotechnology Co., Ltd.* (中源協和幹細胞生物工程股份有限公司). This restructuring was valued at RMB800.0 million.

OTC Market

In March 2013, we began to act as chief agency broker to provide listing and referral services for companies to enter into the NEEQ. Prior to that, we provided such services for companies to enter into the predecessor of the NEEQ. As of the Latest Practicable Date, we recommended 12 companies for share quotation on the NEEQ, and are currently working on recommending an additional seven companies, one of which has already received listing approval from the NEEQ as of the Latest Practicable Date. As of December 31, 2012, 2013 and 2014, we received fees of RMB0.5 million, RMB0.1 million and RMB5.5 million, respectively, for the listing and referral services we provided. Most of our clients that we have referred to the NEEQ are SMEs with high growth potential and operate primarily in the technologies sector. In August 2014, we obtained relevant qualification to conduct market-making activities on the NEEQ. We commenced this business at the end of 2014 and will abide by our overall business strategy to formulate rigorous selection standards for the NEEQ-listed companies that we believe are suitable for our market-making business.

Asset Management and Investment

Asset Management

Our asset management products and services primarily include:

- *Collective asset management scheme*: We manage assets for a group of clients without customization for each customer while keeping client assets in designated accounts pursuant to applicable laws and in accordance with collective asset management contracts;
- *Targeted asset management scheme*: We manage each client's assets in accordance with the specific terms of the contract among such client, the trustee and us. We require each client for this type of scheme to commit at least RMB1.0 million with us; and
- *Specialized asset management scheme*: Based on our clients' special requirements and circumstances relating to their underlying assets, we set specific investment targets, and provide specialized asset management services with specific purposes through designated accounts.

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As of December 31, 2014, we had 71 existing asset management schemes and served approximately 9,600 asset management clients. Our asset management schemes are primarily sold through our nationwide branch network and third-party institutions. In 2013, we were given “The Best Award in the Sixth China Private Equity Annual Meeting” by “the Sixth China Private Equity Annual Meeting” jointly organized by Sinolink Securities and Shanghai Securities News.

In 2012, 2013 and 2014, revenue and other income from our asset management business was RMB16.9 million, RMB18.2 million and RMB210.2 million, respectively, representing 2.2%, 1.7% and 9.9% of our total revenue and other income for the same periods. Our total AUM for the same periods was RMB1,367.9 million, RMB7,305.4 million and RMB16,695.3 million, respectively. The table below sets forth the total AUM of our different asset management schemes for the periods indicated:

| | As of December 31, | | |
|---|--------------------|---------|----------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Collective asset management scheme | 492.6 | 2,558.8 | 5,220.2 |
| Targeted asset management scheme | 875.3 | 4,746.6 | 10,075.3 |
| Specialized asset management scheme | — | — | 1,399.8 |
| Total AUM | 1,367.9 | 7,305.4 | 16,695.3 |

As of December 31, 2014, we had 38 outstanding collective asset management schemes, which primarily focused on areas such as stock investments, fixed income investments, hybrid investments, private placements, stock pledge financing, theme investments and cash management. As of December 31, 2014, seven of our collective asset management schemes were large collective asset schemes, the scale of each of which was no less than RMB100.0 million, and the remaining were small collective asset management schemes, the scale of each of which was no less than RMB30.0 million. Large collective asset management schemes, designed mainly for retail customers and certain institutional customers, typically have a minimum subscription amount of RMB50,000 per customer. Small collective asset management schemes are designed mainly for high-net worth customers who have sufficient income as required by the relevant regulatory authorities and who have adequate risk identification ability and tolerance, with a general minimum subscription amount of RMB1.0 million per customer.

We generally charge annual management fees between 0.1% and 2.5% of the total amount of AUM. We also charge performance fees on some of our collective asset management products. In 2012, 2013 and 2014, we received management fees of RMB5.0 million, RMB9.3 million and RMB18.0 million, respectively, and performance fees of nil, RMB5.9 million and RMB16.4 million, respectively, for these collective asset management schemes. As of December 31, 2012, 2013 and 2014, the total amount of AUM of our collective asset management schemes was RMB492.6 million, RMB2,558.8 million and RMB5,220.2 million, respectively.

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The following table sets forth a summary of our outstanding collective asset management schemes as of December 31, 2014:

| <u>Product Name</u> | <u>Year Established</u> | <u>Type</u> | <u>AUM</u> | <u>Annual Management fee</u> | <u>Performance Fee</u> | <u>Funds Contributed by Us</u> | <u>Duration</u> |
|------------------------------------|-----------------------------|-------------------------|----------------------|--------------------------------------|---|--|------------------|
| | | | (RMB in millions) | | | (RMB in millions) | |
| Jinrui No.1 | 2010 | Fixed-income scheme | 6.9 | 0.90% | 20% when annualized return on investment exceeds 8% | — | 5 Years |
| Jinrui No.2 | 2010 | Hybrid scheme | 22.5 | 1.20% | 20% when annualized return on investment exceeds 10% | 4.0 | 5 Years |
| Jinrui No.3 | 2011 | Equity-linked scheme | 32.2 | 1.20% | 20% when annualized return on investment exceeds 10% | — | 5 Years |
| Yulinglong No.1* | 2012 | Fixed-income scheme | 1.7 | 0.58% | — | 0.8 | 3 Years |
| Xianjin Tianli No.1 ⁽¹⁾ | 2013 | Fixed-income scheme | 471.9 | — | Annualized dividend rights | 10.0 | 3 Years |
| Huijin No.6* | 2013 | Hybrid scheme | 109.7 | — | 100% above expected return threshold | 10.0 | 2 Years |
| Huifu No.1 ⁽¹⁾ | 2013 | Fixed-income scheme | 1,177.7 | — | — | 173.1 | 3 Years |
| Jinrui No.5 ⁽¹⁾ | 2013 | Fixed-income scheme | 209.4 | 0.38% | — | 40.1 | 3 Years |
| Jinrui No.6 ⁽¹⁾ | 2013 | Fixed-income scheme | 176.5 | 0.40% | 20% when annualized return on subordinated investment tranche exceeds 15% | 22.7 | 3 Years |
| Jinrui No.7 | 2013 | Fixed-income scheme | 62.4 | 0.40% | 50% of the risk reserve balance as of the last business day of each quarter | — | No fixed term |
| Huijin No.13 | 2013 | Hybrid scheme | 43.6 | — | 100% when annualized return on investment exceeds 8% | — | No fixed term |
| Yurui No.1 ⁽¹⁾ | 2013 | Hybrid scheme | 88.7 | 0.50% | — | 11.7 | No fixed term |

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| Product Name | Year Established | Type | AUM (RMB in millions) | Annual Management fee | Performance Fee | Funds Contributed by Us (RMB in millions) | Duration |
|---|------------------|----------------------|--------------------------|-----------------------|--|--|---------------|
| Huijin No.15*(¹) | 2013 | Hybrid scheme | 57.4 | 1.00% | 100% when annualized return on subordinated investment tranche exceeds 10% | 4.6 | 18 Months |
| Yulinglong Xiaofejingxuan(¹) | 2013 | Equity-linked scheme | 1.4 | 1.50% | — | 0.3 | 5 Years |
| Yulinglong Shijianqudong*(¹) | 2013 | Equity-linked scheme | 6.7 | 1.50% | — | 4.3 | 5 Years |
| Yuruyi No.2(¹) | 2013 | Hybrid scheme | 229.6 | 0.50% | — | 27.6 | No fixed term |
| Dingzengjingxuan No.1(¹) | 2013 | Equity-linked scheme | 111.4 | 0.85% | — | 19.5 | 18 Months |
| Huijin No.11 | 2013 | Hybrid scheme | 99.4 | 0.50% | 100% above expected return on investment | — | 2 Years |
| Huijin No.18* | 2013 | Hybrid scheme | 40.0 | 0.50% | 100% above expected return on investment | 1.0 | 2 Years |
| Huijin No.20*(¹) | 2013 | Hybrid scheme | 30.1 | 0.10% | 100% above expected return on investment | 26.7 | 18 Months |
| Dingzengjingxuan No.3 | 2014 | Equity-linked scheme | 136.4 | 1.50% | — | — | 5 Years |
| Dingzengjingxuan No.5*(¹) | 2014 | Equity-linked scheme | 0.2 | 1.50% | — | 0.1 | 5 Years |
| Huijin No.26 | 2014 | Hybrid scheme | 30.7 | 0.10% | 100% above expected return on investment | — | 15 Months |
| Dingzengbao No.1(¹) | 2014 | Equity-linked scheme | 69.1 | 1.50% | 20% when annualized return on subordinated investment tranche exceeds 10% | 13.6 | 2 Years |
| Zhiyabao No.1(¹) | 2014 | Hybrid scheme | 30.1 | — | 100% after all senior investment tranches are redeemed | 3.0 | 3 Years |
| Dingzengjingxuan No.6*(¹) | 2014 | Equity-linked scheme | 0.2 | 1.50% | — | 0.1 | 5 Years |
| Huijin No.27(¹) | 2014 | Fixed-income scheme | 32.3 | 1.60% | — | 3.6 | 2 Years |
| Yuruyi No.3(¹) | 2014 | Hybrid scheme | 74.3 | 0.50% | — | 7.5 | No fixed term |

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| Product Name | Year Established | Type | AUM (RMB in millions) | Annual Management fee | Performance Fee | Funds Contributed by Us (RMB in millions) | Duration |
|--------------------------|---------------------|-------------------------|---------------------------------|-----------------------------|---|---|------------------|
| Huijin No.29 | 2014 | Equity-linked scheme | 204.9 | 0.50% | — | — | No fixed term |
| Huijin No.35 | 2014 | Hybrid scheme | 275.5 | 0.15% | — | — | No fixed term |
| Yuruyi No.5*(1) | 2014 | Hybrid scheme | 188.1 | 0.50% | 50% of the risk reserve balance as of the last business day of each quarter | 50.0 | No fixed term |
| Huijin No.33 | 2014 | Hybrid scheme | 133.6 | 0.15% | 100% above expected return on investment | — | No fixed term |
| Huijin No.25 | 2014 | Hybrid scheme | 122.9 | 1.40% | — | — | No fixed term |
| Huijin No.38 | 2014 | Equity-linked scheme | 32.5 | 0.70% | — | — | 5 Years |
| Huijin No.40 | 2014 | Hybrid scheme | 234.5 | 0.15% | 100% above expected return on investment | — | No fixed term |
| Yuying No.1 | 2014 | Hybrid scheme | 31.1 | 1.50% | 100% above expected return on investment | — | 6 Months |
| Dingzengjingxuan No.7 | 2014 | Equity-linked scheme | 284.4 | 1.50% | — | — | 18 Months |
| Dingzengjingxuan No.8 | 2014 | Equity-linked scheme | 360.4 | 2.50% | — | 1.0 | 18 Months |

Notes:

* Included the funds contributed by Guolian Capital.

(1) We consolidated this collective asset management scheme as a structured entity. Please see note 22 of the Accountant's Report on Appendix I to this prospectus.

During the Track Record Period, we contributed our own funds (as well as the funds of Guolian Capital) in subordinated tranches of certain self-developed collective asset management schemes. As of December 31, 2014, we contributed an aggregate RMB435.2 million in 23 such schemes (including funds invested by Guolian Capital in nine such schemes). We consolidated 18 self-developed collective asset management schemes as of December 31, 2014 for which we and Guolian Capital contributed an aggregate RMB418.5 million. For certain of our consolidated self-developed collective asset management schemes, we offered credit enhancement to the holders of lower risk units pursuant to which we agreed to provide compensation to them to the extent that if the unit net asset value of such schemes reaches below a certain threshold, we are responsible for compensating the potential client loss up to the fair value of the our own contributed funds. As of December 31, 2014, we faced possible maximum compensation amount of RMB370.1 million. Please see note 3.2.5 and note 22 of the Accountant's Report in Appendix I to this prospectus for more details on our consolidated structured entities.

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In addition to collective asset management schemes, we also offer targeted asset management schemes. Through our targeted asset management schemes, we provide a customized investment plan to each of our customers based on their investment needs and the most suitable financial products available in the market. The investment target generally includes (i) equity investment products (including, but not limited to, the stocks listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange through IPOs, stocks of listed companies issued through private placements and stocks traded in the secondary market); (ii) money market instruments (including, but not limited to, bank deposits, cash and bond reverse repurchases); (iii) bonds circulated in the inter-bank market and PRC stock exchanges (including treasury bonds, financial bonds, enterprise bonds, corporate bonds, short-term financing bonds and medium-term notes); and (iv) trust schemes, specific asset management schemes established by fund companies or their subsidiaries and other financial instruments traded on the PRC financial asset exchanges and bank wealth management products, as well as other financial instruments permitted by the CSRC. As of December 31, 2014, we had 32 targeted asset management scheme contracts in existence. We charge a management fee of up to 1.5% of the total AUM of such schemes, plus a pre-agreed performance fee. In 2012, 2013 and 2014, we received management fees of RMB2.1 million, RMB6.0 million and RMB9.3 million, respectively, and performance fee of RMB0.1 million, RMB0.2 million and RMB2.7 million, respectively, with respect to these targeted asset management schemes. As of December 31, 2012, 2013 and 2014, the total amount of AUM of our targeted asset management schemes was RMB870.3 million, RMB4,746.6 million and RMB10,075.3 million, respectively.

Furthermore, in August 2014, we introduced our first specialized asset management scheme and recommended it to qualified institutional investors. We charged a management fee of RMB0.1 million per year for this scheme. As of December 31, 2014, the total amount of AUM of our specialized asset management scheme was RMB1.4 billion. This specialized asset management scheme included four senior bonds with an “AAA” rating and one subordinated bond with no rating. The issue size of each bond ranged from RMB200.0 million to RMB550.0 million. In November 2014, the CSRC issued the Administrative Measures on Asset Securitization of Securities Companies and Fund Management Company Subsidiaries (《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 through simplifying filing process, providing business operation guidelines and other supporting policies. We believe such regulatory developments will help us to achieve rapid development of our asset management business. We also plan to dedicate additional resources in the future to expand our specialized asset management product offerings to satisfy clients’ different financing needs and continue to diversify our asset management business.

We have formulated different marketing strategies and established various sales channels for our products. Our collective asset management products are generally promoted through our nationwide branch network or through third-party agency banks. Our financial advisors analyze our customers’ needs in order to identify suitable candidates for our collective, targeted and specialized asset management products. Certain institutional clients are also referred to us through our investment banking business and securities brokerage business.

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Direct Investment

We operate our direct investment business through our wholly-owned subsidiary, Guolian Capital, which we established in 2010. We classify our direct investment activities in the following two categories:

- Making direct equity investments in private companies that we believe have potential for capital appreciation; and
- Investing in equity investment funds, which in turn, make investment in private companies.

We make direct equity investment and earn capital gains through share transfers or equity disposal through IPO. The following table sets forth a summary of our direct investments as of December 31, 2014:

| <u>Investment Target Name</u> | <u>Year of Investment</u> | <u>Industry of Investment Target</u> | <u>Type of Investment</u> | <u>Committed capital injection</u> | <u>Equity Interest in Investment Target</u> |
|---|---------------------------|--------------------------------------|---------------------------|------------------------------------|---|
| (RMB in millions) | | | | | |
| Wuxi Taihu Yangshan Peach Technology Co., Ltd.* (無錫太湖陽山水蜜桃科技有限公司) ⁽¹⁾ | 2010 | Agriculture | Direct equity investment | 13.0 | 26.0% |
| Xiyu Fund (錫域基金) ⁽²⁾⁽³⁾ | 2011 | All industries | Equity investment fund | 17.0 | 17.0% |
| Wuxi Chuangkeyuan Laser Equipment Co., Ltd.* (無錫創科源激光裝備股份有限公司) ⁽⁴⁾ | 2013 | Manufacturing | Direct equity investment | 6.2 | 6.33% |
| Lingxiang Fund (領翔基金) ⁽³⁾⁽⁵⁾ | 2014 | All industries | Equity investment fund | 20.0 | 33.3% |

Notes:

- (1) During the Track Record Period, we have contributed an aggregate amount of RMB13.0 million of our own funds. We are in the process of exiting this private company and expect to complete our exit in 2015.
- (2) Xiyu Fund was established in March 2011 with the initial size of RMB100.0 million and expires in 2018. Guolian Capital is a limited partner of this fund and as of December 31, 2014, we have contributed approximately RMB8.7 million out of RMB17.0 million we are expected to contribute into this fund. Guolian Capital began to manage fund as a financial advisor through a contractual administrative delegation arrangement with the fund and its general partner, Wuxi Jiayu Capital Management Co., (Limited Partnership)* (無錫嘉御資本管理合夥企業(有限合夥)) ("Jiayu Capital"). Guolian Capital entered into a Management and Financial Advisory Agreement with Xiyu Fund and Jiayu Capital on April 8, 2012, pursuant to which Xiyu Fund and Jiayu Capital designated Guolian Capital as the financial advisor of the fund to provide investment consultancy and financial advisory in project investments, financial management and fund operations within the authorized scope. In connection with these services, Guolian Capital receives an annual financial consultancy fee of RMB500,000, payable by Xiyu Fund on a semi-annual basis beginning. For two years after Guolian Capital exits the fund, it will continue to receive a financial consultancy fee with a semi-annual payment equal to invested capital not yet exited multiplied by 1.0% multiplied by 50%. As of December 31, 2014, Guolian Capital was entitled to receive an aggregate financial consultancy fee of RMB2.0 million under this contract.
- (3) We have invested, through Xiyu Fund, in (i) Soul Data Computing (Wuxi) Co., Ltd.* (無錫眾志和達數據計算股份有限公司) in 2011 with an investment amount of RMB12.0 million, representing an equity interest in the invested company of 5.45%, and (ii) Wuxi Dongheng New Energy Technology Co., Ltd.* (無錫東恒新能源有限公司) in 2014 with an investment amount of RMB10.0 million, representing an equity interest in the invested company of 4.9%. We have also invested in Pharmaxyn Laboratories Ltd.* (無錫藥興醫藥科技有限公司) in 2014 through both Xiyu Fund and Lingxiang Fund, in two separate transactions. In the first transaction, Xiyu Fund and Lingxiang Fund acquired 11.828% of the equity interest in Pharmaxyn Laboratories Ltd. from another shareholder for an aggregate consideration of RMB10.0 million (RMB5.0 million each from Xiyu Fund and Lingxiang Fund). In the second transaction, Xiyu Fund and Lingxiang Fund invested an aggregate RMB10.0 million (RMB5.0 million each from Xiyu Fund and Lingxiang Fund), representing an additional 7.0% of equity interest in Pharmaxyn Laboratories Ltd.
- (4) This company was listed on the NEEQ in May 2014 and is currently engaged in merger discussions with a third party. As of December 31, 2014, we have contributed approximately RMB6.2 million. We expect to exit from this investment in 2015.

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- (5) Lingxiang Fund was established in December 2013 with the initial size of RMB60.0 million and expires in 2019. Guolian Capital is a general partner of this fund and as of December 31, 2014, we have contributed RMB4.0 million out of RMB20.0 million we are expected to contribute into this fund. Pursuant to the partnership agreement entered into between the partners in respect of Lingxiang Fund, Guolian Capital will not receive any management fees in connection with its role as the general partner of this fund.

The CSRC requires PRC securities firms to conduct direct investment activities through their subsidiaries and limit the capital dedicated to their direct investment business to 15% of its Net Capital. As of the Latest Practicable Date, Guolian Capital had a registered capital of RMB200.0 million, which did not exceed 15% of our Net Capital.

During the Track Record Period, Guolian Capital had, in practice, submitted investments of over RMB10.0 million to Guolian Group for approval. However, the approval of any investment to be made by Guolian Capital has been made within our Group as of the Latest Practicable Date. In addition, investments by the two equity investment funds we manage, Xiyu Fund and Lingxiang Fund, are subject to the approval of their respective investment committee.

Before we identify any investment target companies 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, such as reverse repurchase arrangements involving treasury notes, to maintain liquidity. As of December 31, 2014, Guolian Capital invested RMB105.7 million in cash management products issued by our asset management department and Guolian Trust.

As part of our investment strategy, we make certain amount of investment each year. Since 2011, we have invested approximately RMB31.9 million in private companies and the two equity investment funds we currently manage as of December 31, 2014. In 2012 and 2014, the segment revenue and other income from our direct investment business amounted to RMB5.0 million and RMB11.4 million, respectively. In 2013, we recorded a loss of approximately RMB5.2 million in our direct investment business.

Credit Transactions

Our credit transactions business consists of margin financing and securities lending and other capital-based intermediary businesses, such as securities-backed lending and securities repurchase.

Margin Financing and Securities Lending

We have been actively developing our margin financing and securities lending business. We have commenced our margin financing and securities lending business since July 2012 after obtaining the relevant qualification from the CSRC in May 2012. Our margin financing services involve taking cash or securities in our brokerage customers' accounts with us as collateral for financing their securities purchases, and thereby, providing funding flexibility and enabling them to improve investment returns through leverage. The securities collaterals include, among others, stocks, bonds, ETF and LOF. We also lend securities held on our own account to brokerage customers through our securities lending services, enabling them to take advantage of potential short selling opportunities in the market place. We typically specify in our agreements with margin financing and securities lending clients the maximum margin loan or securities lending amount, maturity date and interest rate for the funds and securities we lend to them. The terms of our margin financing and securities lending are generally under six months, and we currently charge a premium of 3.0% and 5.0% above the PBOC benchmark interest rate of six-month loans for financial institutions as annualized interest rate for our

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margin financing and securities lending services, respectively. As of December 31, 2014, the annualized interest rates we charged for our margin financing and securities lending were 8.6% and 10.6%, respectively.

We have experienced substantial growth in revenue and profit in our margin financing and securities lending business since its initiation. Revenue and other income from our margin financing and securities lending business primarily consists of interest income from margin financing and securities lending. In 2012, 2013 and 2014, segment revenue and other income from our margin financing and securities lending business was RMB4.1 million, RMB63.3 million and RMB171.4 million, respectively. We believe our margin financing and securities lending business has become an important component of our capital-based intermediary businesses. Our customers also have access to these services through our Internet trading services platform. As of December 31, 2014, 899 stocks and 15 ETFs were eligible for margin financing and securities lending in China, and we offered margin financing services for 897 eligible stocks and 15 ETFs and offered securities lending services for 32 eligible stocks and seven ETFs. We expect the types and quantities of securities eligible for margin financing and securities lending in China to expand and that institutional investors such as fund management firms and insurance companies will also be entitled to using the margin financing and securities lending services. We have an arrangement in place with China Securities Finance to borrow funds and in turn, lend such funds to our margin financing customers. This arrangement increases the amount of funds available to our margin financing business, which in turn, maximizes our return on equity. In 2013, we entered into a margin refinancing agreement with China Securities Finance, under which we can borrow up to RMB500.0 million for a term not exceeding six months. Our margin refinancing agreement expires 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, we agreed to pay an annual interest rate of approximately 5.8% and placed a 20% refundable deposit with China Securities Finance using a combination of cash (not less than 15%) and securities, all or a part of which would not be returned to us in the event of customer default. In March 2014, our credit line and refundable deposit ratio were raised by China Securities Finance to RMB600.0 million and 25%, respectively. As of April 30, 2015, the margin loan financed by China Securities Finance was RMB850.0 million.

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

| | <u>As of or for the year ended December 31,</u> | | |
|--|---|-------------|-------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| Margin trading volume (<i>RMB in millions</i>) | 1,324.2 | 29,809.1 | 96,173.1 |
| Margin loan balance (<i>RMB in millions</i>) | 189.7 | 1,147.0 | 3,738.4 |
| Market value of securities lent (<i>RMB in millions</i>) | 1.3 | 3.5 | 61.9 |
| Collateral ratio ⁽¹⁾ | 391.0% | 249.3% | 248.4% |

Note:

(1) 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, 2014, we had approximately 128,600 customers who met our internal requirements and were eligible to apply for margin financing and securities lending accounts, among which approximately 9,500 customers had opened accounts with us for such services and approximately 5,300 had executed transactions with us, representing 7.4% and 4.2% of our eligible customer pool, respectively. As part of our business strategy, we plan to actively expand our margin

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financing and securities lending business, which we estimate will require approximately RMB1.0 billion and RMB2.0 billion of additional capital in 2015 and 2016, respectively. We expect to finance our additional capital requirements using a combination of sources, including, but not limited to, our cash and bank balances, cash flows from operating activities, funds from China Securities Finance, proceeds from the issuances of our subordinated corporate bonds, and approximately 45.0% of the net proceeds from the Global Offering.

Margin financing and securities lending business is characterized by capital-intensive nature and associated market and credit exposure. See “Risk Factors—Risks Relating to Our Business and Industry—We may suffer significant losses from our credit transactions and other businesses due to our credit exposures,” and “—Internal Control Measures—Margin Financing and Securities Lending Business.” 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 their accounts with us for a minimum of six months with at least one trading transaction and a minimum balance of RMB500,000 (this is a requirement as of the Latest Practicable Date, which is subject to change from time to time as required by the PRC regulatory authorities) of their securities assets as of the time of 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, including 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.”

For our margin financing and securities lending services, only eligible securities quoted on the Shenzhen Stock Exchange and the Shanghai Stock Exchange shall qualify as collateral. The collaterals from our margin financing and securities lending clients typically include treasury bonds, convertible bonds, ETFs and certain types of stocks. As of December 31, 2012, 2013 and 2014, the market value of the collateral from our margin financing and securities lending clients amounted to RMB746.1 million, RMB2,866.1 million and RMB9,435.9 million, respectively. For each security that qualify as collateral, we assess an individual discount rate that we apply to its market value when we determine the amount of margin loan to be granted. Such discount rates are capped by the relevant stock exchanges. The following table sets forth the applicable maximum discount rates as required by the Shanghai Stock Exchange and the Shenzhen Stock Exchange for various types of securities in our margin financing and securities lending business:

| <u>Type of securities</u> | <u>Discount rate</u> |
|---|----------------------|
| 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% |

Although our margin financing and securities lending business experienced rapid growth in recent years, we will continue to improve our review procedures for new clients and strengthen the relevant risk management measures.

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Other Credit Transactions Businesses

To better meet our clients' needs for financing and liquidity and further expand our credit transaction business, we have launched securities repurchase in March 2013 and securities-backed lending in July 2013. We initiated these businesses to take advantage of opportunities arising from deregulation in the financial industry and fast-growing demand in financing from our clients.

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 securities repurchase transactions, 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 rates we charge for these services are 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 our securities-backed lending business to better meet our clients' financing needs. However, due to limitations from our Net Capital, we do not intend to expand our securities repurchase business in the near term. As of December 31, 2013 and 2014, the outstanding balance of our securities-backed lending was RMB230.0 million and RMB922.5 million, respectively, and that of our securities repurchase business was RMB69.7 million and RMB39.4 million, respectively. Annualized average interest rate was 8.06% and 8.23%, respectively, for the years ended December 31, 2013 and 2014. The aggregate market value of securities in our client accounts (excluding securities in open-ended funds and other financial products) amounted to approximately RMB65.4 billion as of December 31, 2014, which provided substantial amount of potential assets available for our securities-backed lending and securities repurchase businesses. In addition, as of December 31, 2014, the aggregate market value of the securities held by us under our securities-backed lending and securities repurchase business was RMB4.1 billion.

Our securities-backed lending business can be divided into two categories, large loans and small loans. For large loans, our clients are typically senior management and/or large shareholders of publicly-listed companies. We allow our clients to provide restricted stocks they own as collateral. We determine loan amounts based on the credit worthiness of these publicly-listed enterprises and the personal credit history of our clients, including whether their historical use of funds exceeded their ability to make repayment. On the other hand, for our small loan customers, we generally cap loan amounts to not more than RMB2.0 million per customer and only accept freely tradable securities as collateral. We have also designed two small loan securities-backed lending programs, namely Zhongxinbao (中新寶) and Xiaorongbao (小融寶). For our Zhongxinbao customers, we only permit them to use the loan amounts to invest in newly-issued equity securities, whereas Xiaorongbao customers generally have more flexible investment options. We plan to continue to focus on product innovation and intend to continue to enhance our product development capabilities and to develop new securities products and services serving our business needs, subject to PRC regulatory requirements and restrictions.

Proprietary Trading

We commenced our proprietary trading business in 2001 and engaged in the trading of various financial products permitted by the CSRC, which include stocks, bonds, funds and derivatives. Our investment in derivatives are mainly stock index futures for the purpose of hedging as part of our

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strategies and policies to achieve stable returns while vigorously managing risks. We have applied a prudent and value investment approach when conducting our proprietary trading business. In 2014, we received the “Outstanding Member Award” in “Options Strategies Promotion Month Competition” organized by the Shanghai Stock Exchange.

In 2012, 2013 and 2014, segment revenue and other income from our proprietary trading business was RMB49.0 million, RMB160.5 million and RMB462.9 million, respectively, representing 6.3%, 14.9% and 21.7% of our total revenue and other income, respectively, for the same periods. The following table sets forth the daily average investment amount, investment range, net revenue and average investment return for our proprietary trading activities by asset class as well as our average daily VaR for the years indicated⁽¹⁾:

| | | Year ended December 31, | | |
|---------------------------------|--|---------------------------------------|-------------|---------------|
| | | 2012 | 2013 | 2014 |
| | | (RMB in millions, except percentages) | | |
| Stocks and funds . . . | Range of investment | 650.0~1,209.4 | 286.0~920.2 | 281.9~619.0 |
| | Average investment amount | 909.9 | 542.6 | 414.3 |
| | Net revenue ⁽²⁾ | 10.6 | 63.2 | 240.8 |
| | Average return (%) | 1.2 | 11.6 | 58.1 |
| Bonds | Range of investment | 82.0~277.6 | 96.0~965.9 | 159.3~1,579.7 |
| | Average investment amount ⁽³⁾ | 160.7 | 657.8 | 554.1 |
| | Net revenue ⁽²⁾ | 22.1 | 21.8 | 118.3 |
| | Average return (%) | 13.8 | 3.3 | 21.3 |
| Others ⁽⁴⁾ | Range of investment | 13.5~13.5 | 13.5~214.3 | 231.5~463.2 |
| | Average investment amount | 13.5 | 148.3 | 388.9 |
| | Net revenue ⁽²⁾ | (2.0) | (1.1) | 47.5 |
| | Average return (%) | (14.8) | (0.7) | 12.2 |
| Total | Average investment amount | 1,084.1 | 1,348.7 | 1,357.3 |
| | Net revenue ⁽²⁾ | 30.7 | 83.9 | 406.6 |
| | Average return (%) | 2.8 | 6.2 | 30.0 |
| | VaR (95%, one-day) ⁽⁵⁾ | 14.6 | 9.1 | 7.4 |

Notes:

- (1) Calculated as follows: (i) average investment amount = aggregate of annual 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) For purpose of this calculation, net revenue does not include unrealized investment gains.
- (3) Net of bonds sold under repurchase agreements, and includes investments made for liquidity management purposes.
- (4) Includes primarily stock index futures.
- (5) The one-day 95% VaR number used by us reflects the 95% probability that the daily loss will not exceed the reported VaR.

We have implemented strict policies to avoid comingling of own capital with clients’ funds when we carry out our proprietary trading business. For example, our account control procedures require that we obtain prior approval from the general manager of our proprietary trading department whenever we open a proprietary trading account and must subsequently notify the CSRC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange as well as CSDC. All of our proprietary trading accounts are monitored on a real-time basis by our finance and accounting department to keep track of any gains or losses. To mitigate adverse impact of significant market fluctuations on our proprietary trading business, we have strengthened our internal control measures and hedging activities to manage the risks in our proprietary trading business. See “—Internal Control Measures—Proprietary Trading.”

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We emphasize prudent operation and value investing in our equity trading and aim to achieve stable returns while minimizing risks. The Board usually allocates at the beginning of each year certain amount of our own capital to be used annually in connection with our proprietary trading activities. We formulate our investment strategy on a quarterly basis which determines the investment scale and direction and risk exposure for our proprietary trading activities, based on our financial condition, stock research and market conditions during the next quarter. With respect to equity securities, we generally focus on investment in blue-chip stocks that have mid- to long-term upside. Any single equity investment of more than RMB50.0 million will need to be specifically approved by our Investment Decision Committee, which is formed on an *ad hoc* basis to evaluate and approve the investment. Our Investment Decision Committee typically consists of our Chairman, our President, the head of our proprietary trading department and the head of our research department. We have adopted stringent stop-loss procedures, including imposing stop-loss point (usually a 20% loss) 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 the 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 procedures to liquidate our equity positions to avoid reaching our maximum risk exposure. However, if the loss in an equity security is determined to be a result of the general volatility in the stock market, we only require our proprietary trading department to report such situation to our Investment Decision Committee, rather than triggering automatic liquidation procedures. In 2014, our maximum risk exposure was RMB3,406.6 million, including RMB328.6 million in equity investments and RMB2,882.7 million in debt investments.

We believe that our investment and hedging strategies have generally been effective, considering that (i) our average daily returns on stock and funds investments was 58.1% for 2014, which outperformed the CSI 300 Index in 2014, and (ii) our proprietary trading activities were conducted well within our authorized maximum risk exposure during the Track Record Period. For details of our internal control measure, please see “—Internal Control Measures—Proprietary Trading.”

With respect to investing our own funds in bond trading, we maintain strict control over our investment horizon, and most of our bond investments are 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 “AA” in China, as well as treasury bonds. Most of our bond investments are rated by reputable credit rating agencies in China, including China Chengxin International Credit Rating Co., Ltd.* (中誠信國際信用評級有限責任公司) and Dagong Global Credit Rating Co., Ltd.* (大公國際資信評估有限公司). Any single bond investment of more than RMB100.0 million will need to be specifically approved by our Investment Decision Committee. Consistent with our overall stop-loss policies, when the market value of the ordinary bonds and convertible bonds we hold is 5% and 10%, respectively, less than our initial investment amount, we are required to gradually reduce our holding in such debt securities to stop-loss. Despite these measures, we were still exposed to credit risk of the issuers of the bonds we invested. During the Track Record Period, we had an aggregate of approximately RMB14.9 million of our own funds in two private placement bonds, which matured on July 10, 2014 and November 9, 2014, respectively. The issuers of such bonds defaulted on the respective maturity date and we were unable to redeem our investments. In January 2015, we initiated arbitration proceedings at South China International Economic and Trade Arbitration Commission, respectively, seeking to recover, among other things, approximately RMB9.3 million, which includes unpaid principal and damages for breach of contract, among others. As of the

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Latest Practicable Date, one arbitration case was resolved pursuant to which we were eligible for a compensation of RMB7.1 million plus interests, and another case was pending arbitration ruling. Our PRC legal advisor, Jingtian & Gongcheng, has advised us that as a petitioner in such arbitration cases, we will not be required to pay any damages, compensation or related expenses and penalties in the event the relevant arbitration commission rules against us.

With respect to our investments in derivatives, we have also implemented stop-loss procedures. We will initiate stop-loss in the event the market value of a single underlying equity security declines 20% from our initial investment amount, and if such decline is not caused by systematic risks in the market. However, if the decline is caused by systematic risk, then we will initiate stop-loss only in the event the aggregate market value of our hedging investment portfolio declines 20% from our initial investment.

To increase our leverage ratio and improve yields on our bond investments, beginning in 2013, we have actively engaged in bond repurchase transactions in the inter-bank 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 such counterparties and agree to repurchase such assets at predetermined prices on the maturity date of the repurchase agreements. Bond repurchase transactions enable us to increase our bond holding and improve our return on equity by reducing the total cost of funds. As of December 31, 2014, the aggregate market value of the financial assets held under repurchase agreements amounted to RMB2,529.9 million.

MAJOR CLIENTS AND SUPPLIERS

We provide services to a diverse base of individual and institutional clients. Our major clients are mainly non-corporate institutions, large-, medium- and small-sized enterprises, institutional investors and retail clients. All of our clients are located in the PRC, primarily Jiangsu province. See “Risk Factors—Risks relating to Our Business and Industry—We face the risks of concentration of customers and business in Wuxi and Jiangsu province.”

In each of 2012, 2013 and 2014, 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 close 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.

RESEARCH

We have a research department (formerly known as research and development department) and most of our research personnel are located in Wuxi and Shanghai. During the Track Record Period, our stock research generally covers over 14 industries and approximately 185 public companies, including 11 publicly-listed companies based in Wuxi.

Our research team covers macro-economic analysis, industry sectors and listed companies, investment strategies, quantitative research and financial innovation. Our research team provides research reports and regular updates to our brokerage customers to assist them in identifying and evaluating investment opportunities. In addition, our research team provides valuable guidance and advice to support our other business lines, such as our proprietary trading, asset management,

investment banking and credit transactions businesses. Other aspects of its responsibilities include developing consulting reports that fulfill our customers' needs and providing training to our investment financial advisors.

As of December 31, 2014, our research team consisted of 29 members, of whom two held doctorate degrees, 23 held master's degrees and the remaining held bachelor's degrees or college degrees. In addition, 14 of our research analysts hold professional qualifications, such as Securities Investment Consulting Qualification and Chartered Financial Analyst.

We also encourage our research analysts to attend professional training programs to continuously enhance their research expertise. We offer in-house training programs at the corporate and department levels. At the corporate level, we train our new research employees when they first join our Company. We organize large-scale professional training courses annually and establish an e-learning system for our research personnel. At the department level, we often invite third-party professionals to hold lectures periodically.

INFORMATION TECHNOLOGY

IT System

IT system is of vital importance to our operation as it provides essential and functional support to our daily transactions, account management, risk management and new business development. In order to comply with the developing needs of corporate governance and risk management, we have established a steady, creative and studious information technology headquarters, which is responsible for formulating and implementing our IT policies, establishing IT standards, managing and supervising the information technology headquarters of our various branches in our network and providing technological support and other services to them. We utilize systems, equipment and software developed by third-party IT providers and place strong emphasis on maintaining and upgrading our IT equipment on a timely basis.

Our information technology headquarters has the following principal functions:

- *Operation monitoring and maintenance:* Our IT operation monitoring and maintenance team monitors the operation of our business activities, such as brokerage, asset management, proprietary trading 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. The information technology headquarters also performs comprehensive maintenance, malfunction resolution, service centers and emergency handling functions.
- *Systems support:* Our IT systems support team is responsible for the planning, design, establishment and maintenance of our application systems to ensure their safety, functionality, reliability and efficiency. It is also responsible for the systems management and upgrades.
- *Research and development:* Our IT research and development personnel are responsible for conducting thorough researches and analyses on new technologies and developing in-house applications and systems.
- *Internet safety and security:* The IT safety and security team is in charge of the establishment and management of our technology facilities, including computer rooms, Internet environment, operating systems and data center.

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- *Integrated management*: Our integrated management team's key functions include, among others, IT management of branches, personnel management, file management and IT systems procurement management.

We have established the following principal IT systems and platforms to support our business operations, risk control and management:

- *Centralized trading system*: Our centralized trading system is our core business system for our securities brokerage business that connects all of our branches and our clients in China and enables us to process and share data and information across our entire company, providing timely and accurate data for our business management, risk monitoring and support for decision-making.
- *Centralized account management system*: A comprehensive system that consolidates and manages all our clients' account information, including procedures and standards for clients' account opening.
- *Online trading system*: Our online trading system is a business platform that provides online trading and market information updates to our clients through the Internet and various mobile devices.
- *Risk monitoring and management system*: Our risk monitoring and management system monitors the operations of our various business units, including trading activities of our securities brokerage business, and effectively manages associated risks by issuing real-time risk warnings.
- *Client relationship management*: The client relationship management system provides support for our client services, product promotion and sales and marketing efforts.
- *Data center*: Our data center collects and processes data from our business operations at our headquarters and securities branches in order to support our decision-making and reporting needs.

In addition to the above-mentioned systems and platforms, we have also established margin financing and securities lending system, clearing and settlement system and investment management system that support our various business operations.

We regard IT systems as fundamental for the continuous success of our business and future growth, especially in light of the development of Internet trading platforms, and we strive to improve our IT infrastructure and applications. We will continue to upgrade our current IT facilities and systems and introduce new technologies to keep pace with the rapid development of our business. We rely primarily on third-party suppliers for our IT equipment, systems and software.

IT Risk Management

We have adopted the Hang Seng 3.0 Risk Management System to monitor, on a real time basis, our various operating activities, including Net Capital surveillance, securities brokerage, margin financing and securities lending, proprietary trading and asset management. We also monitor post-settlement transactions, customer accounts and financial risk control indicators to manage our risks, as well as implementing anti-money laundering, compliance management and Chinese Wall management initiatives. In addition, we 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.

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We have also implemented various IT security measures, including firewalls, anti-virus measures, user authentication and authorization protocols, intrusion detection and infiltration tests, in order to improve our information security management capabilities with respect to defense, monitoring, warning, response and recovery.

Our IT risk monitoring system integrates information and work flow in order to facilitate inter-departmental collaboration and improve our operating efficiency. The system delineates different approval processes in accordance with our internal work flow engine. Our employees are required to directly follow the defined processes when completing various trades and other transactions, which significantly improve the standardization of our approval procedures, and thereby, reducing associated risks.

We strive to improve our disaster recovery system and have established a disaster recovery data center in Wuxi, which contains a real-time backup system. In the event our main system failure adversely affects our business, the back-up system can be automatically switched on to maintain ongoing operations. During the Track Record Period, we did not experience any IT-related incident or failure.

MANAGEMENT OF LIQUIDITY AND LEVERAGE RATIO

The management of our liquidity and leverage ratio is critical to the success of our business. The philosophy underlying our liquidity risk management is comprehensiveness, prudence and predictability. We aim to establish an all-round liquidity risk management system to efficiently identify, measure, monitor and control potential liquidity risks and ensure our liquidity requirements can be fulfilled at a reasonable cost. We seek to improve our return on equity by determining a leverage ratio suitable for our business.

We adopt a comprehensive budget system to forecast our cash flows and estimate our funding requirements for business operation and other investments. To meet our short-term cash flow needs, we conduct repurchase transactions primarily on the exchange market and inter-bank market. To meet our Net Capital requirements, we have also implemented strict liquidity management measures, which require us to conduct stress tests on our overall liquidity and other financial indicators before making any major operating decisions.

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 subordinated corporate bonds and short-term notes, as well as other financing channels.

On February 14, 2011, we issued subordinated corporate bonds to Guolian Group in an aggregate principal amount of RMB650.0 million to increase our Net Capital, which were fully redeemed in January 2015. On August 6, 2014, we issued short-term subordinated corporate bonds to an asset management company in an aggregate amount of RMB300.0 million, which were fully redeemed on February 6, 2015. In addition, on October 29, 2014, we completed the issuance of RMB1.5 billion of subordinated corporate bonds to several financial institutions to finance our working capital. On January 20, 2015, we issued an additional RMB1.5 billion of subordinated corporate bonds to several financial institutions to increase our Net Capital and finance our working capital. We may

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issue additional tranches of subordinated corporate bonds in 2015, subject to market conditions and our capital requirements.

We have formulated a series of internal control policies regarding the principles, procedures and duties of managing our own funds, and the budgeting, capital allocation, usage, registration 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 the overall effectiveness of our funds management, improve our funds allocation and control our liquidity risk.

RISK MANAGEMENT

Overview

Our risk management aims to allocate risk-based capital reasonably, limits risks to a tolerable level and maximizes our enterprise value. 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. Based on the effectiveness of our risk management and internal control system, the CSRC assigned us an “A” regulatory rating in 2014 (the highest regulatory rating given by the CSRC in 2014 was “AA”), which was a significant improvement from the “BBB” and “BB” regulatory ratings we received in 2012 and 2013, respectively.

According to the Regulation on Classification of Securities Companies, classification results of securities companies are deemed as prudential conditions for the companies’ applications for expansion of certain types of business, establishment of new branches, issuance of securities and listing on stock exchanges, and shall also be the basis for determining the scope of pilot runs and promotion sequence for new businesses and products. Among the CSRC’s five major classes of regulatory ratings (Classes A through E), (i) Class A represents the highest risk management capability in the industry and the securities company can effectively control risks in conducting new business and products; (ii) Class B represents relatively high risk management capability and the securities company can effectively control risks involved in expanding businesses in the changing market; (iii) Class C means a company has suitable risk management capability as to its current businesses; (iv) Class D indicates that a securities company has poor risk management capability and the potential risks are beyond the company’s undertaking; and (v) Class E indicates that potential risks have already developed into real risks and measures need to be taken to mitigate these risks. Therefore, classification of regulatory ratings are relevant when a securities company seeks to expand certain types of existing business, open new securities branches, engage in new businesses, raise capital and/or obtain financing, among other things.

According to the Supplemental Regulation on Further Improving Securities Companies’ Stock Investors Protection Fund (《關於進一步完善證券公司繳納證券投資者保護基金有關事項的補充規定》) issued by the CSRC, with respect to the securities investor protection fund that PRC securities companies are required to contribute funds to in order to conduct their businesses, securities companies with different regulatory ratings (from D to AAA) are required to pay different percentages of their revenue, which range from 0.5% to 5.0%, to the securities investor protection fund, subject to the scale of the fund. The higher the regulatory rating, the lower the percentage of revenue a securities company is required

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to pay to the fund. Therefore, a downgrade of a securities company's regulatory rating may lead to an increase in the amount payable to securities investor protection fund, which may result in a decrease in such company's net assets and consequently, its Net Capital. Certain of our existing businesses, including, securities brokerage, securities underwriting and sponsoring, asset management, margin financing and securities lending and proprietary trading require us to maintain our Net Capital at certain levels, and a reduction in our Net Capital may limit our ability to increase the scale of our existing businesses. However, during the Track Record Period, our Net Capital was substantially higher than the minimum levels set by the CSRC with respect to our various businesses pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies. Please see "Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control" and "Financial Information—Capital Adequacy and Risk Control Indicators." Accordingly, our Directors confirmed that, in practice, the changes of our regulatory ratings during the Track Record Period did not have any material impact on our existing business operations or the growth of our different business segments. Our regulatory rating decreased to "BB" in 2013 compared to "BBB" in 2012 because while we maintained relatively similar point additions as in 2012, we had regulatory point deduction of 0.75 points in connection with a non-compliance event as described below. Except for the reason stated above, there were no other major factors that contributed to the downgrading of our regulatory rating in 2013. We improved our regulatory rating to "A" in 2014 primarily because we improved our comprehensive rankings among all PRC securities companies while not having any deduction in regulatory points. Please see "Regulatory Environment" for details of the regulatory point regime under the CSRC.

Our risk management system has the following characteristics:

- *Efficient and integrated personnel and institutional setting:* To enhance the competitiveness of our risk management, we established an efficient and integrated risk management structure involving a multi-level authorization system, including the Board and our Risk Control Committee as the first level, senior management (including Chief Risk Officer) and our Risk Management Committee as the second level, risk management departments (including compliance and risk control department, financial and accounting department, information technology headquarters, depository center, human resources department and audit department) as the third level and risk management organizations under various branches (including our regional branches and our branches) as the fourth level. Our four-level authorization system focused on the management of the scale of investment, trading position exposures and stop-loss limits and risk limits, setting various risk control indicators to cover such businesses as asset management, proprietary trading, margin financing and securities lending and securities-backed lending and securities repurchase.
- *Efficient stress testing system:* We conduct regular and *ad hoc* stress testing for the risks we face, and we have established an efficient stress testing mechanism, which enables us to determine appropriate business scale and financing needs of our different business lines, and allows us prioritize the allocation of our capital.
- *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 businesses.
- *Independent risk management system of subsidiaries:* Each of our subsidiaries, Hua Ying Securities and Guolian Capital, has its own comprehensive risk management systems.

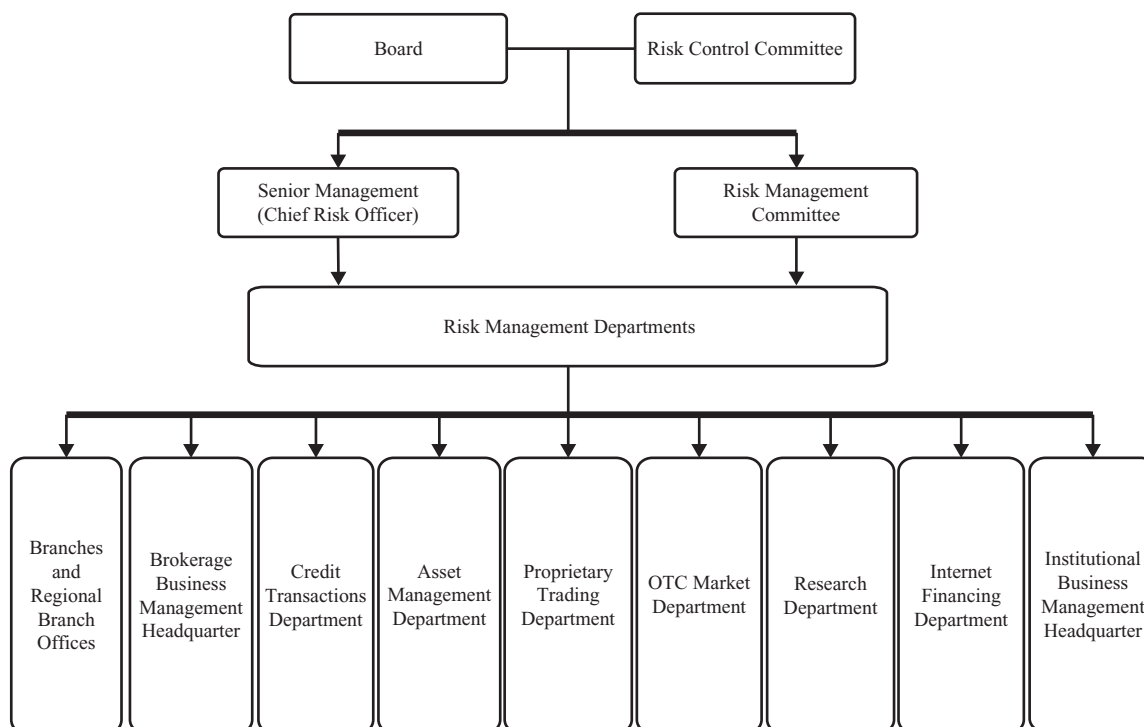
Risk Management Principles

Our risk management principles include:

- *Comprehensive risk management procedures:* Our risk management system is designed to monitor, assess and prevent all possible risks associated with our operations. We have also formulated proper risk management procedures and risk control methods before entering into a new business or developing new products;
- *Consistent approach to risk management:* The risk management system and tasks are required to be consistent with the growth of our business and the development goals of our Company;
- *Independence:* Risk management should be performed by autonomous departments to ensure a high degree of independence and to avoid interference from other business activities;
- *Authority:* Our Risk Management Committee and risk management departments shall have authority in supervising and managing the risks relating to our operations to ensure its fairness and objectiveness; and
- *Streamlined risk management structure:* Our senior management and Risk Management Committee are responsible for the overall risk management of our business operations, while different risks are closely monitored, assessed and supervised by our risk management department, various business departments and branches, all of which are required to timely report their findings to our Risk Management Committee and senior management (including the Chief Risk Officer).

Risk Management System of Our Company

We have established a four-level risk management structure based on our own operational needs in accordance with the requirements of Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》). The organizational structure of our risk management is illustrated below:



The Board and Risk Control Committee

The Board and our Risk Control Committee are at the highest level in our risk management structure and is ultimately responsible for establishing an effective risk management environment.

Our Risk Control Committee is mainly responsible for (i) approving a comprehensive risk management system and related organizational structure and functions, and appointing a Chief Risk Officer; (ii) determining our Company’s overall risk preference, risk tolerance and information disclosure; (iii) evaluating risk management reports and recommendations; and (iv) supervising the effective execution of the risk management duties and responsibilities by our senior management.

Our Risk Control Committee is led by Mr. Yao Zhiyong, who holds management positions at Guolian Group, Wuxi Guolian Investment Management Consulting Co., Ltd. and our predecessor, Wuxi Securities Co., Ltd., with over 21 years of experience in securities and finance industry. As of December 31, 2014, this committee had five members with an average of 20 years of relevant experience. Three of them hold a master’s degree or higher and the remaining hold a bachelor’s degree.

Senior Management, Risk Management Committee and Chief Risk Officer

The second level of our risk management structure consists of our senior management (including the Chief Risk Officer) and our Risk Management Committee.

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Our senior management is primarily responsible for implementing specific works in comprehensive management system, mainly involving (i) establishing an overall risk management organization and ensuring the independence of our risk management departments; (ii) formulating specific risk management policies and procedures according to the Board's risk preference and risk tolerance strategy, and developing and implementing specific risk quotas. Through the exercise of their decision-making and management rights, our senior management is also required to keep our business risk exposure within established risk tolerance levels. Our senior management includes President Mr. Lei Jianhui, Vice President Mr. Jiang Zhiqiang, Vice President Mr. Peng Yanbao, Vice President Mr. Li Zhengquan, Chief Compliance Officer Mr. Xu Faliang and Chief Risk Officer Ms. Chen Zhiying, all of whom are approved by the CSRC or its local bureau.

The Chief Risk Officer reports directly to the Board and is responsible for (i) the organization and implementation of our overall risk management, examination and approval of the company's risk management planning and risk measurement approaches, models and metrics and ensuring that the risks assumed not exceeding the established limits; (ii) organizing of our internal risk management systems and policies assess significant market, credit, liquidity and other risks; (iii) organizing business management activities in the presence of potential risks to investigate and question, formulating the rights and obligations of risk management departments, reporting to the Board of major potential risks, urging involving department to rectify, and reporting to the Board, our Risk Control Committee or our Supervisors in case the ratification of major potential risks is not acceptable.

Our Risk Management Committee is a risk decision-making organization, which reports directly to the Board and is mainly responsible for (i) assessing all types of risk exposure to our major business projects and new businesses; (ii) evaluating our risk management operational procedures; (iii) approving certain scenarios where the risks associated with our business operations exceed our predetermined risk quotas; (iv) delegating and adjusting specific functions of the responsibilities of our various risk management departments; (v) coordinating collaboration of our risk management departments and our various business departments to ensure fairness and authority of our risk management departments; and (vi) evaluating the effectiveness of our risk management process.

Risk Management Departments

Our risk management departments, which include the risk management functions under our compliance and risk control department, financial and accounting department, information technology headquarters, depository center, general management office, human resources department and audit department, are mainly responsible for (i) implementing laws and regulations and regulatory guidelines, developing risk management systems and procedures, reporting to the President's office and our Risk Management Committee for review and approval; (ii) developing risk management approaches and tools, establishing risk control indicators and early warning mechanisms; (iii) identifying, monitoring and reporting relevant risks and control measures to ensure that all our operations are in compliance with relevant laws and regulations and our internal risk management policies; (iv) assessing risks associated with new products and new businesses, and designing risk management processes and control measures, and review the system and procedures of risk management; (v) daily monitoring of the risks associated with our headquarters and branch offices in accordance with our risk management policies and risk quotas, to ensure compliance with our multi-level authorization structure; (vi) timely recording high-risk behaviors and carrying out stress testing and sensitivity analyses; (vii) providing independent risk management reports to senior management (including the Chief Risk Officer); and (viii) other risk management duties associated with our risk management.

Risk Management Functions under Various Business Departments and Branches (Including Our Regional Branch Offices and Branches)

Staff or contact person in charge of compliance and risk control has been assigned among various business subsidiaries and branches of our Company, subject to the appraisal and assessment from our compliance and risk control department. They assist the leader in the respective department in conducting such works as identification, assessment, responsiveness and reporting of the related risk, in order to ensure each policy implemented in their respective department and report the same to our risk management department for professional guidance.

Our Subsidiaries

Our subsidiaries, Hua Ying Securities and Guolian Capital, have independent risk management systems. The following is a summary of risk management system of our subsidiaries.

Risk Management System of Hua Ying Securities

Hua Ying Securities' risk management structure consists of: (i) the board of directors, (ii) the risk control committee; (iii) the chief risk officer; (iv) the compliance and risk control department; and (v) its various business departments and offices. Their specific functions are as follows:

- *Board of directors:* The board of directors of Hua Ying Securities monitors its overall risk management and is mainly responsible for: (i) formulating risk preferences and risk management structure of Hua Ying Securities; (ii) reviewing and approving risk management strategy, provisions and procedures; (iii) approving new products and services; (iv) reviewing reports submitted by risk control committee of Hua Ying Securities to ensure the validity of its risk management; and (v) reporting to shareholders of Hua Ying Securities of any risk management incidents.
- *Risk control committee:* Hua Ying Securities' risk control committee is established under the direction of its board of directors and is mainly responsible for: (i) formulating Hua Ying Securities' overall risk management strategy and policies for review of the board of directors; (ii) implementing risk management policies; (iii) making risk assessments on Hua Ying Securities' existing businesses, connected transactions, major investment decisions, new businesses and liquidity, and proposing relevant suggestions; (iv) analyzing and reviewing risk management and internal control policies of Hua Ying Securities; (v) supervising and making amendment proposals on Hua Ying Securities' risk management strategy, internal control policies and procedures; and (vi) carrying out other responsibilities assigned by its board of directors.
- *Chief risk officer:* The chief risk officer is a member of Hua Ying Securities' senior management who is responsible for the following tasks: (i) drafting and amending risk management policies and procedures and submitting to the Board and risk control committee for approval; (ii) continuously monitoring the risk levels of Hua Ying Securities, fully understanding its risk exposures and making periodic reports to the board of directors; (iii) researching and evaluating the risks involved in Hua Ying Securities' operations and making recommendations for improvement; (iv) enforcing risk limitations imposed by its board of directors; and (v) making other major decisions within its management scope as authorized by its board of directors.

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- *Compliance and risk control department:* The compliance and risk control department is a specialized department within Hua Ying Securities' risk management system, which is mainly responsible for: (i) monitoring and evaluating general risk levels of Hua Ying Securities; (ii) providing recommendations for day-to-day business decisions; and (iii) assisting, guiding and supervising risk management responsibilities of Hua Ying Securities' business departments and offices.
- *Business departments and offices:* Hua Ying Securities' business departments and offices perform their duties of risk management within their designated business scope, and are required to make timely reports of any potential risks to the compliance and risk control department and the chief risk officer of Hua Ying Securities.

Risk Management System of Guolian Capital

In order to effectively manage the risk of our direct investment business, Guolian Capital has formulated Regulations for Management of the Direct Investment Business Risk of Guolian Capital Co., Ltd. (《國聯通寶資本投資有限責任公司直接投資風險管理辦法》), which was passed by its board of directors and became effective.

The risk control organization system of Guolian Capital consists of five levels, namely, (i) the board of directors; (ii) the supervisors; (iii) the risk control committee; (iv) the general manager; and (v) the risk manager, with the following specific functions:

- *Board of directors:* To determine the risk control system on project-by-project basis, to guide and supervise the risk control and decision-making by risk control committee, general manager and risk manager;
- *Supervisors:* To supervise and inspect the risk control of projects;
- *Risk control committee:* To assess the investment risk of projects with investment volume of RMB40.0 million or more, to provide risk opinions against the controversial medium and small projects, and to hold the regular meeting to control risk;
- *General manager:* To manage the overall risk from investment projects; and
- *Risk manager:* To review the compliance and risk control in the process of project approval, investment decision-making and post-investment management, and to convene regular meeting to control our daily risk exposure.

Monitoring and Management of Major Risks

We monitor and manage the credit risk, concentration 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 includes transaction counterparty credit risk/default risk, collateral risk and concentration risk.

With respect to transaction counterparty credit and default risks, we established internal credit rating model, which we use to analyze a counterparty's economic strength to determine its credit rating based on a number of financial indicators, including, but not limited to, working capital, level of

indebtedness and source of income, as well as stock market value. After conducting a careful analysis, we issue a comprehensive due diligence report. We also take into consideration the counterparty's credit history or external credit ratings provided by reputable rating agencies as persuasive reference. When we accept collateral in connection with our margin financing and securities lending and securities-backed lending businesses, our research department typically participates in the conversion consideration for such collateral and determines an appropriate discount rate. Meanwhile, we also consider various characteristics of the collateral, such as liquidity, lock-up period (in the case of restricted stock), loss rate and credit rating, when determining whether the collateral can be accepted. Our credit transactions department conducts periodic assessments on the value of the collateral and timely adjusts applicable discount rate in accordance with changing market and business conditions.

Concentration Risk

We face concentration risk in our business. To effectively manage such risk, we established a unified risk management approach on business concentration, product concentration, transaction counterparty concentration, capital concentration and debt structure concentration. By strengthening the recognition, measurement, supervision and reporting system for such risks and improving stress testing regime, through which we established appropriate risk warning levels, we have formulated an effective centralized concentration risk warning and prevention mechanism.

Market Risk

Market risk refers to the risk resulting from the fluctuations in stock prices, interest rates, product commodity prices and other overall or partial changes in the market that may affect the products sensitive to such market risk. To minimize market risk, we have adopted the following measures:

- *Sensitivity analysis*: We control and adjust market exposures of financial products through different sensitivity parameter setting limits, ensuring that the risk of the entire portfolio falls within the expected range;
- *Concentration control*: We implement capital limits at various level of our Company (including business and product) to control the risk appetite by limiting our exposure to market risk. Our capital limits are reviewed and adjusted annually to reflect changing market conditions, business conditions or our risk tolerance levels;
- *VaR method*: We use VaR on a daily basis to evaluate risk exposure and assess the relative and absolute risks of our debt and equity investments and monitor their risk quotas; and
- *Stress test and circumstance analysis*: We adopt stress testing and scenario analysis to monitor our risk exposures. We also issue periodic market risk reports, and designate resident risk control personnel in our various business departments to monitor and analyze risks associated with our operations.

Liquidity Risk

Liquidity risk refers to the risk resulting from the failure to adequately meet expected and unexpected needs for current or future cash flows or repay outstanding indebtedness without affecting daily operations or financial condition. In order to prevent liquidity risk, we have adopted the following measures:

- effectively managing our funding sources, financing arrangements and allocations;

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- determining liquidity risk preferences, normal liquidity levels and liquidity risk limitations of our various business lines based on our business strategies, financial condition and financing capability, while taking into consideration the liquidity risk and the other relevant risks involved in our business operations;
- conducting stress tests when the fund usage is approaching liquidity limitation and taking appropriate measures to ensure the liquidity risk exposure of each of our business line is within authorized threshold; and
- establishing an adequate liquidity reserve to provide additional source of funding in the event of emergencies.

Compliance Risk

Compliance risk refers to various risks that securities company may be exposed to legal sanction, regulatory measures or disciplinary actions, property damages or reputation losses as a result of its business operations and the conduct of its employees in violation of the laws, regulations or rules, including risks associated with traditional business transformation and new business development, the employee practicing risk and the management risk associated with the Chinese Wall and anti-money laundering.

We have established an effective and comprehensive compliance risk management system and compliance management organization system. In order to facilitate our compliance management, we have established the compliance and risk control department and actively explored various effective models of compliance management by communicating with various regulatory authorities. Meanwhile, our compliance and risk control department implemented an effective and comprehensive control on the compliance risks encountered during the course of our operations by means of compliance testing, compliance inspection, compliance review, compliance supervision and compliance training.

Operational Risk

Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system. The operational risk mainly consists of procedure risk, systematic risk, human resource risk and external risk. We adopt the following measures to prevent operational risk:

- establishing a sound internal control environment and improve our employee's awareness and recognition on effective internal control measures;
- arranging particular staff to monitor certain key risk indicators in major business departments and report to our compliance and risk control department periodically;
- effectively implementing the risk control policies in our daily operations;
- segregating various business units that may encounter conflict of interests;
- enhancing our decision-making and approval procedures with regard to the development of new businesses and products;
- maintaining a centralized business management IT system, which allows us to automatically manage our key operations; and
- formulating contingency plans in each of our business departments to ensure timely resolution of unexpected events and minimize potential losses.

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

We have formulated comprehensive internal rules and guidelines for our securities brokerage business to ensure that our 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 misconducts 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:

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| <i>Standardizing management of service counters</i> | We have implemented strict rules for verifying client identity, preserving information, as well as opening and re-examining client identity, among other measures, and have established supervision and inspection mechanisms for opening and re-examining client identity, including such clients who open accounts in or out our branch offices. Compliance officers are assigned to monitor and identify risks for each counter at our securities branches. |
| <i>Profiling customer risks</i> | We assess our customers' risk tolerance and evaluate their risk profile based on a combination of factors, including their financial condition, investment experience and investment preferences. In addition, we establish and improve our risk tolerance assessment system and risk tolerance questionnaire to assess the risk tolerance level of our clients, and in order to match the needs of our clients with appropriate financial products. |
| <i>Third-party custody of client funds</i> | In accordance with the relevant PRC laws and regulations regarding the custody of client funds, we require branches to maintain accounts with qualified commercial banks and authorized financial institutions to hold client deposits. We also prohibit our sales and marketing personnel and our back-office personnel from managing customer accounts or handling customer deposits to minimize the occurrence of improper trading. |
| <i>Real-time monitoring system</i> | We use our IT system 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 securities branches with respect to account openings, security of funds, authority limits of tellers and irregularities in client trading. |
| <i>Centralized management</i> | To prevent misappropriation of client funds, we have centralized client transactions and client data backup function, and have centralized the management of the securities brokerage trading systems of our securities branches. In order to enhance the security of clients' funds, we settle and clear client funds centrally through our headquarters. |
| <i>Special monitoring</i> | We assign compliance officers to monitor the trading activities of those clients that have been subject to investigation by the CSRC and the relevant stock exchanges. |
| <i>Segregation of front and back offices</i> | We supervise and manage the front office of our branches and the back office of our headquarter separately. We have a dedicated internal control team to manage the authority limits and responsibilities for our employees. The auditing, settlement and risk management personnel of our back-office are prohibited from participating in sales and marketing activities, managing client accounts or handling client deposits. |

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| <i>Regular and special audits</i> | Our audit department conducts regular and special audits on our brokerage business and securities branches with respect to their internal controls, daily operations, financial and accounting management and business performance. |
| <i>Highlighting risks to investors</i> | We continue to strengthen investor education and improve the risk highlighting functions of our trading rules in order to improve investors' risk awareness and risk management capabilities. |
| <i>Mechanisms for follow-up calls and handling client complaints</i> | We have established a client service platform to make follow-up calls for some clients. Meanwhile, we prominently display information about our customer service 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 timely. |

Sales of Third-party Financial Products on a Commission Basis

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 whether it has obtained requisite qualifications and product certificates, its capital base, business scale, shareholding structure, operating history and internal controls;
- performing a detailed product analysis, including the basis for the sale of the product, its risk-return characteristics, management fees and investment strategies;
- evaluating the risk profile of the financial products, analyzing customers identities, assets and income, as well as their financial knowledge, investment experience and risk tolerance, and thereby, determining suitable groups of investors;
- requiring sales employees to carry out onsite visits for new clients before they sell the products;
- 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;
- effectively implementing Chinese Walls and conflict of interest prevention protocols to control the dissemination of sensitive information and prevent insider trading; and
- collecting sample feedback from clients to monitor any improper conduct by our sales employees.

Investment Banking

Hua Ying Securities monitors certain key risks for our investment banking business, including operational and compliance risks. It also manages market risk associated with the equity and debt financing businesses, as well as interest rate risk and credit risk relating to debt financing business. Hua Ying Securities controls and manages these risk exposures associated with our investment banking business through its board of directors, investment banking committee (including the proposal team and internal review team thereof), compliance and risk control department and quality control department, involving business launching, project implementation, issuing securities and continuous supervision.

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Launch of business

Hua Ying Securities formulates Standards for customers selection, pursuant to which, professional personnel are organized to observe the enterprises, so as to identify the key customer base and expand focused business. Hua Ying Securities manages its current clients and focusing clients through database, and updates database timely. Personnel specially designated are responsible for maintaining the relationship with clients.

Launch of business mainly includes steps as follows:

- searching for business opportunities;
- conducting preliminary investigation, including understanding clients and their businesses;
- conducting the first on-site visit;
- following up on contacts;
- applying for project approval; and
- examining and approving project application.

Project implementation

Project implementation mainly includes due diligence, restructuring guidance (for IPO projects), preparation of materials relating to the projects, internal review and approval, application to the relevant regulatory authorities, offering and underwriting, information disclosure and continuous supervision.

During each process of the project implementation, project team has a complete task list and sets out a clear scope of work for each task. The working papers are fully and properly kept, the progress feasibility schedule is formulated, and the division of personnel and allocation of duties are clear.

When executing projects, project team is required to submit regular report to the quality control department regarding the project implementation. When material changes arise after a project is approved, the project team will timely report to the quality control department, which will subsequently report to the senior management of Hua Ying Securities. If such change involves compliance risk, the quality control team will submit a report to the compliance and risk control department for review and risk assessment.

Issuing securities

Issuing securities mainly includes the following steps:

- issuing plan—involves market analysis and offering program design;
- pricing—includes preparation of study report on investment value and organization of roadshow and inquiry and pricing;
- placement of securities and settlement—includes placement of securities to investors and payment of application monies in accordance with the relevant laws and regulations; and
- registration and custody of securities and listing.

The quality control of investment banking project is mainly conducted by the project manager, the quality control department and the internal audit team. Any unconventional letter, statement, data, calculation or memo provided by a member of the staff should be reviewed by another member for accuracy and appropriateness.

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The project manager is the project-level quality control manager of each investment banking project, and takes the overall responsibility for the project quality and its legal compliance. Therefore, the project manager is required to implement appropriate review procedures for all relevant materials. Sponsor representative is responsible for sponsoring the project, bearing the overall project responsibility such to Hua Ying Securities and securities regulatory authorities.

Continuous supervision

Following the issuance and listing of the securities, Hua Ying Securities conducts continuous supervision according to the relevant laws and regulations. Hua Ying Securities supervises a listed company to fulfill its obligations on complying with its legal and regulatory obligations, including, but not limited to, undertakings, information disclosure and other requirements of the PRC regulatory authorities.

With respect to the continuous supervision, (i) a sponsor representative of the project and supervision team are responsible for its implementation; (ii) the quality control department is responsible for the daily quality review and monitoring; (iii) the compliance and risk control department conducts supervision and investigation on an *ad hoc* basis; and (iv) the management of Hua Ying Securities makes decisions on the major issues identified in the continuous supervision.

Asset Management

Our compliance and risk control department and internal audit department supervise and assess our exposure to the potential regulatory risk, market risk, credit 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 frequently monitor these risks in order to ensure effective performance of our entrusted duties, the accuracy of our disclosure of risk-related information, our prudence in business development and the protection of our investors' interests.

The internal control and risk management measures of our asset management business primarily include the following:

Investment decision procedures

In order to effectively control investment risks associated with client assets, our asset management department has established an asset management investment decision panel, which is responsible for determining significant matters such as investment philosophy, investment principles, investment restrictions and quarterly range of asset dispositions.

Management of trading procedures

- We assign different personnel to issue investment orders and execute trades. Investment managers issue electronic trading orders through our centralized trading office, the access of which is strictly prohibited without express approval from the manager of our asset management department, except for the operation management personnel and traders, in accordance with the authorization by the asset management investment decision panel and the scope of investment specified in asset management contracts. After trading orders are verified by the compliance and risk management personnel in our asset management department, traders are required to strictly follow such orders in executing trades, and the trading system will automatically reject

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trades that do not comply with the orders. Both the issuance and the execution of trading orders are recorded in the system.

- For asset management schemes that invested in equity securities, we implement stop-loss mechanisms in accordance with the relevant contracts, product schemes and relevant regulatory rules.
- Our asset management investment decision panel establishes a securities pool for our investments and investments are made 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.

Product design

When designing asset management products, our asset management department is required to consult with the relevant compliance and risk management personnel with respect to each product's compliance and expected risk-return characteristics, among other things.

Segregation of businesses

We require the asset management business to be segregated from our proprietary trading business in order to prevent insider trading and avoid conflicts of interest. A personnel is prohibited from managing both the asset management and proprietary trading businesses simultaneously.

We require the asset management business to segregate duties that may generate conflicts of interest, such as investment decision, trade execution, research plan and market development, among other functions.

Opening independent accounts

We entrust client assets with qualified commercial banks and authorized financial institutions 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 and separate fund accounts and securities accounts.

Due diligence on client identity

We conduct due diligence on client identity and background to understand the client's assets, income, securities investment experience, investment preferences, risk awareness and risk tolerance level. Based on our due diligence, we divide our asset management clients into three different risk tolerance levels so that we can recommend suitable products or services.

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 proactively disclose risks of asset management schemes to our clients.

Real-time risk monitoring

Our risk management personnel have established risk-monitoring mechanism 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 and stop-loss.

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

We engage in the direct investment business through our wholly-owned subsidiary, Guolian Capital, which has an investment decision committee that makes decisions on any equity investment

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not exceeding RMB10.0 million, as authorized by its board of directors. The investment decision committee of Guolian Capital manages the risks associated with our direct investment activities, primarily operational risk and compliance risk. During the Track Record Period, Guolian Capital has, in practice, submitted investments over RMB10.0 million to Guolian Group for approval. However, the approval of any investment to be made by Guolian Capital has been made within our Group as of the Latest Practicable Date.

Guolian Capital has established stringent risk management and internal control systems based on applicable PRC regulations and our general internal policies, covering investment target selection, negotiation, due diligence review, investment strategy, contract execution, post-investment management and exit from investment. For example, Guolian Capital requires its internal audit managers and compliance officers to participate in all project approval meetings and financial due diligence interviews and to attend the target company's board and shareholder meetings in order to closely monitor its business operations. In addition, Guolian Capital has established four lines of defense, namely, (i) the board of directors; (ii) the investment decision committee; (iii) management team; and (iv) compliance and risk management staff within the department:

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| <i>The board</i> | The board of directors of Guolian Capital is the highest decision body for our direct investment business. It is responsible for determining the business scale and formulating the basic regulations for our direct investment business in accordance with the investment strategy and allocations set by the Board. |
| <i>Investment decision committee</i> | The investment decision committee of Guolian Capital is the decision-making organization for the project investments under the authorization of the board of directors. It is responsible for reviewing direct investments or exiting from them. It comprises eight members, three of whom are generally selected to review and determine the suitability of each investment project. |
| <i>Management</i> | The management of Guolian Capital is responsible for the organization and implementation of the investment activities. |
| <i>Compliance and risk management personnel</i> | The compliance and risk management personnel of Guolian Capital is responsible for monitoring and evaluating the risks associated with our investment projects, conducting analyses and evaluations for investment review, implementation, post-investment management and exit from investment. |

Margin Financing and Securities Lending

The key risks we monitor in our margin financing and securities lending business include credit risk, operational risk and compliance risk. We also actively 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 3.5% of our Net Capital (which is lower than the maximum of 5% required by the PRC regulatory authorities);

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- the scale of business from any single client of securities lending may not exceed 3.5% 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).

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 securities branches are generally responsible for the preliminary review of credit information provided by our clients in order to verify clients' identities, assets owned and income, and understand their investment experience and risk tolerance. The credit information of eligible clients will then be reviewed by our credit transactions department in our headquarters. We will not accept applications for margin financing and securities lending from clients who fail to satisfy any of the following criteria: (i) providing relevant personal information as required; (ii) maintaining their accounts with us for a minimum of six months while conducting at least one trading transaction during this period; (iii) depositing transaction settlement funds under a third-party custody; (iv) meeting our minimum securities assets requirement of RMB500,000 at account (this is the requirement as of the Latest Practicable Date, which is subject to change from time to time as required by the regulatory authorities); (v) having "low" risk for money laundering; and (vi) not being our Shareholders or affiliated persons. We determine clients' credit ratings and credit limits based on the credit information they provide. We classify our clients into nine levels of credit ratings (the highest being "AAAA" and the lowest being "D"), on which we determine the credit lines of the clients. 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 such client's 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 who participates in our margin financing and securities lending 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 balance of margin loans and securities lent, which is the sum of margin loans extended, the securities sold short and any accrued interests and fees.

According to their different collateral ratios in order to conduct differentiated management, we categorize clients' credit accounts into four classes, namely, super safe, safe, alert and liquidation. 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 also 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 160% or above within the next two business days, failure of which will result in mandatory liquidation of their trading positions.

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We have also established a comprehensive risk monitoring and control system for our margin financing and securities lending business. Our risk control system consists of the following departments:

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| <i>The Board</i> | The Board is responsible for determining the overall scale of our margin financing and securities lending business based on our total funds and Net Capital, as well as the relevant PRC laws and regulations. |
| <i>Credit business development committee</i> | This committee is chiefly responsible for, among others, overseeing the implementation of our margin financing and securities lending strategy and scale as directed by the Board. It reviews and approves internal control and operating procedures of such business and determines maximum credit limits. |
| <i>Management headquarters of our brokerage business</i> | Based on the policies and procedures of our margin financing and securities lending business as formulated by the Board and the credit business development committee, the management headquarters of our brokerage business performs the following principal functions: <ul style="list-style-type: none">● complete and refine the relevant operating policies and procedures of our brokerage business headquarters and securities branches; and● coordinate the development, marketing, client analyses, customer services and investor education for our margin financing and securities lending business. |
| <i>Credit transactions department</i> | Our credit transactions department is mainly responsible for the day-to-day management of our margin financing and securities lending business, including (i) the management of client accounts; (ii) granting and management of credit limits; (iii) conducting real-time monitoring of client transactions; (iv) setting and implementing liquidation/margin call requirements; and (v) monitoring the credit transactions at our securities branches. |
| <i>Audit department, financial accounting department, compliance and risk control department and information technology headquarters</i> | These departments perform various internal control and risk management functions independently from our other departments and business activities: <ul style="list-style-type: none">● our compliance and risk control department conducts periodic and random inspection of the compliance of our margin financing and securities lending business, and inspects the related policies and procedures, as well as developing a risk indicator system;● our Audit department and financial accounting department are responsible for analyzing, allocating and auditing of the funds required by our margin financing and securities lending business; and● our information technology headquarters manages and maintains the systems used in connection with our margin financing and securities lending business to provide technological support and control IT risk exposure. |

Securities-backed Lending and Securities Repurchase

We monitor and manage liquidity risk, credit risk, operational risk and market risk with respect to our securities-backed lending and securities repurchase businesses. We have established a stringent client selection and credit assessment system. Similar to our margin financing and securities lending business, our securities branches are responsible for the preliminary review of credit information provided by our clients in order to understand clients' identities, properties owned and income,

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investment experience and risk tolerance levels. The credit information of eligible clients will then be reviewed and monitored by our credit transactions 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) depositing transaction settlement funds under a third-party custody; (iii) meeting our minimum account assets requirement of RMB500,000 (this is the requirement as of the Latest Practicable Date, which is subject to change from time to time as required by the regulatory authorities); (iv) having “low” risk for money laundering; (v) having the appropriate level of risk tolerance; and (vi) not being our Shareholders or affiliated persons. We determine credit ratings and credit limits based on the credit information they provide. We classify our clients into five levels (A, B, C, D or N/A) of credit ratings. We track and assess the credit condition of clients engaging in securities-backed lending and securities repurchase on an ongoing basis. In case of any material change in the credit condition, we will re-evaluate client’s 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 securities-backed lending and securities repurchase on a real-time basis. The collateral ratio is calculated as the ratio of the client’s total account balance, which includes securities held, to the client’s margin balance, which is the sum of loans extended and any accrued interest and fees. As of December 31, 2013 and 2014, the collateral ratio in securities-backed lending business was 257.5% and 297.4%, respectively. We send alerts to clients whose accounts are under the alert class (generally with a collateral ratio below 160% for unrestricted stock, 180% for restricted stock, 160% for funds, 115% for treasury notes and 135% for enterprise bonds), requesting that they monitor their securities-backed lending 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 140% for unrestricted stock, 160% for restricted stock, 140% for funds, 110% for treasury notes and 120% for enterprise bonds), we send liquidation notices to clients, requiring them to either repay the loan we lent, provide additional collateral and/or provide third-party guarantee to us, failure of which may lead to the mandatory disposal of securities pledged or transferred to us.

With respect to our other credit transactions businesses, our compliance and risk control department participates in the entire process of development and analysis for innovative businesses and conducts comprehensive risk assessment and feasibility studies on various types of risks in relation to new products and new businesses, including 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 compliance and risk control department conducts risk monitoring and compliance inspections on new businesses in order to rectify problems in a timely manner and improve the risk management of new businesses.

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Proprietary Trading

The key risks we monitor in our proprietary trading business include market risk, credit risk, liquidity risk, operational risk and compliance risk. We have established a five-level risk management governance structure to manage the risks associated with our proprietary trading business, which include (i) the Board; (ii) our senior management; (iii) the Chief Risk Officer; (iv) our compliance and risk control department; and (v) our proprietary trading department and the resident compliance and risk management personnel.

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| <i>The Board</i> | The Board determines the size of our proprietary trading activities based on PRC regulatory requirements, such as the size of our assets, liabilities and income and our capital adequacy. It is also responsible for our risk tolerance threshold. |
| <i>Senior management</i> | Our senior management is mainly responsible for establishing our internal proprietary trading regulations and procedures, formulating our risk management structure, and assessing and minimizing risks associated with our proprietary trading business. |
| <i>Chief Risk Officer</i> | The Chief Risk Officer examines our internal control policies, evaluates major investment decisions, and conducts compliance review of any newly designed products or new businesses. |
| <i>Compliance and risk control department</i> | Our compliance and risk control department supports the Chief Risk Officer to formulate compliance policies, examine securities trading procedures, conduct risk assessment and monitoring through a market risk monitoring system based on risk control indicators, discover any irregularities and improprieties, and implement remedial measures. |
| <i>Proprietary trading department</i> | The resident risk management and compliance personnel of our proprietary trading department conducts regular compliance reviews of the department, monitors risks associated with our proprietary trading business and handles other compliance and risk management matters. |

To better control our risk exposure with respect to our proprietary trading business, we have also implemented the following measures:

- the Board, subject to the ratification by our Shareholders at the Shareholders' meeting determines annually the trading limits and risk tolerance thresholds associated with our equity, debt and derivative securities investments for the following year based on the aggregate value of the securities held by our proprietary trading department in the current year, calculated on a cost basis. With respect to our investments in certain debt securities, the Board also sets limits on applicable leverage ratio;
- our Investment Decision Committee determines the amount of investment in equity, debt and derivative securities in light of the trading limits set by the Board, and adjusts our actual trading activities based on prevailing market conditions and our investment strategies;
- with respect to our own funds, our finance department strictly adheres to the trading limits set by the Board when it allocates the internal funds to our proprietary trading department;
- we have established a monitoring and reporting system to monitor our trading activities on a daily basis. At the end of each trading day, the resident compliance and risk management personnel notifies our proprietary trading department staff of the available trading limits and existing leverage ratio;

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- our compliance and risk control department prepares a written report containing a summary of our trading activities and the existing status on our aggregate investment scale and leverage ratio to ensure they are within the prescribed limits set by the Board; and
- we have established a mechanism to authorize any excess over the initial trading limits, in the event it is required through the following procedures:
 - in the event the initial trading limits need to be exceeded, our proprietary trading department will prepare a detailed report highlighting the specific reasons for additional internal funding;
 - based on the report, our compliance and risk control department will conduct appropriate stress testing and sensitivity analyses to determine whether such request is warranted;
 - our compliance and risk control department will subsequently submit a report to our Investment Decision Committee, which will evaluate the findings in such report before making a formal recommendation to the Board;
 - the Board, after considering facts and circumstances involving such request, will determine whether it will authorize the excess over the initial trading limits. In case the Board approves such increase in our trading limits, such approval shall be ratified by our Shareholders at a Shareholders' meeting; and
- we use VaR to manage our trading limits and market risks associated with our proprietary trading business. We have set a daily VaR limit of RMB100.0 million for our investments in equity and debt securities. When the daily VaR approaches RMB80.0 million, our compliance and risk control department will notify our Investment Decision Committee, which will consider whether to temporarily reduce our trading limits and/or adjust the types of securities available for investment based on the prevailing market conditions and our risk exposure.

Furthermore, with respect to our investments in equity and debt securities and derivatives, we have implemented the following additional internal control measures.

For Equity Securities:

- maintaining a pool of equity securities for our proprietary trading business based on market conditions and our own research, which focuses primarily on the target company's profitability, growth prospect, liquidity, ability to repay indebtedness and operational efficiency;
- setting the limit on aggregate investment of equity securities and derivatives to be not more than our Net Capital;
- setting the approval requirements for investments in equity securities as follows:
 - investments over RMB50.0 million are required to be approved by our Investment Decision Committee;
 - investments between RMB30.0 million and RMB50.0 million are required to be approved by the President or a Vice President of our Company who oversees our proprietary trading department;

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- investments between RMB10.0 million and RMB30.0 million are required to be approved by the head of our proprietary trading department, who shall submit a report to the President or a Vice President of our Company who oversees our proprietary trading department; and
- investments less than RMB10.0 million are required to be approved by the head of our proprietary trading department.
- limiting the cost of holding a single equity security to equal to or less than 30% of our Net Capital;
- monitoring our securities holdings on a real-time basis, including our trading positions, unrealized profit or loss, risk exposure and trading activities;
- establishing a stop-profit or stop-loss mechanism that sets pre-determined points to stop profit and stop 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:

- setting the limit on aggregate investment of debt securities not exceeding 300% of our Net Capital;
- requires the credit rating of the issuance rating to be “AA” or above, or if the credit rating is below “AA,” the investment must be reviewed and approved by our Investment Decision Committee. In addition, our proprietary trading department conducts strict internal assessment of the debt instruments to be invested; and
- setting the approval requirements for investments in debt securities as follows:
 - investments over RMB100.0 million are required to be approved by our Investment Decision Committee;
 - investments between RMB50.0 million and RMB100.0 million are required to be approved by the President or a Vice President of our Company who oversees our proprietary trading department; and
 - investments less than RMB50.0 million are required to be approved by the head of our proprietary trading department, who shall submit a report to the President or a Vice President of our Company who oversees our proprietary trading department.

For Derivatives:

- the limit on our investments in derivatives, which primarily include stock index futures, is included in the limit on aggregate investment of equity securities and derivatives, which shall not be more than our Net Capital; and
- setting the approval requirements for investments in derivatives as follows:
 - investments over RMB200.0 million are required to be approved by our Investment Decision Committee;

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- investments between RMB50.0 million and RMB200.0 million are required to be approved by the President or a Vice President of our Company who oversees our proprietary trading department; and
- investments less than RMB50.0 million are required to be approved by the head of our proprietary trading department, who shall submit a report to the President or a Vice President of our Company who oversees our proprietary trading department.

In order to control market risk, we also engage in hedging activities through using stock index futures. As required by PRC regulation, the goal of our hedging strategy is to neutralize market risk of our long positions and to ensure that our risk exposure and losses do not exceed the predetermined limits. By holding and adjusting stock index futures positions in opposite direction to the positions of securities held or to be held by us, we can effectively reduce volatility of our securities portfolio, and enhance the stability and reliability of our proprietary trading business model. In 2012, 2013 and 2014, the effectiveness of our hedging activities had generally been between 50% and 140%.

Chinese Walls

As a securities firm with a diversified range of businesses, we inevitably face conflict of interests. We recognize the importance of managing such conflicts 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.

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.

We have developed and implemented effective policies and procedures to safeguard insider information and prevent improper trading. To effectively enforce Chinese Walls, we have implemented the following measures:

- we have physically segregated office spaces for different departments, such as our investment banking, proprietary trading, asset management and research advisory teams, and our employees must sign-in and sign-out when they enter and exit designed office spaces. We also require visiting guests of a particular department to register upon entrance and restrict their access to other departments;
- our research department cannot issue a research report on an investment banking client until 40 days after the announcement of the pricing of its IPO, or 10 days after the announcement of the pricing of a 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 compliance and risk control department. “Wall-crossing” is typically initiated by the department requiring it and the request must be approved by our compliance and risk control department and the employee’s own department. Our compliance and risk control department requires our “wall-crossing” employees 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 conduct of employees who perform duties such as IT, 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, we prohibit the distribution of research reports and other sensitive information both internally and externally during quiet periods, other than in a few limited circumstances and in accordance with our internal policies. 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. The business operation and decision-making of our business departments, such as brokerage, investment banking, asset management, proprietary trading and research advisory department, operate independently from one another, and no employees may perform work simultaneously for two or more departments with conflicts of interest. In addition, departments with conflict of interests cannot share the same meeting rooms, computers, printers, fax machines and other office equipment.

Conflicts of Interest

Conflicts of interest arise in situations where two or more interests within our business legitimately exist but are in competition or conflict. Conflicts of interests may arise among (i) our various operating departments; (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 our various business departments shall be objective, impartial and honest;
- sensitive information which is only intended for internal use cannot be disclosed to the public by any means; and
- research results and information may not be disclosed to other personnel or institutions without prior authorization.

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

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interest even with Chinese Walls, such conflicts of interest must be disclosed. If such 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 endeavor to prioritize our clients' interests and treat different clients fairly.

In addition, we have issued a series of manuals and internal procedures requiring all of our employees to learn and comply with our conflict of interest policies, including prioritizing client interests, treating clients fairly, preventing insider trading, protecting confidential information and complying with Chinese Walls, as well as complying with restrictions on employee's own securities investment activities. We also require employees to timely disclose any conflict of interests to manager of the relevant department. 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

Money laundering activities refer to various activities intended to hide or alter the illegal source of money. 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. 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.

In addition, we have established a risk-based approach in our customer acceptance policy, which aims to identify the types of customers that are likely to pose a higher than average risk of money laundering and terrorist financing. This approach is based on our customer due diligence process that takes into account factors such as the customer's background, the nature of its business, its origin or residence, its industry risks and any other information that may suggest that such customer presents any risk in respect of money laundering and terrorist financing. We classify potential customers into four different money laundering risk categories from "low risk" to "very high risk," and may restrict, suspend or terminate our relationship with clients based on their money laundering risk profile. Furthermore, we have developed and enhanced our anti-money laundering monitoring report system, with which we further strengthen the off-site regulations and suspicious transaction identification and reporting mechanism.

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."

COMPETITION

The securities industry in the PRC and Jiangsu province are highly competitive. We believe the competition primarily centers around (i) the range of products and services offered; (ii) pricing; (iii) customer service; (iv) marketing and distribution channels; (v) geographic and network coverage; (vi) financial resources (including the availability of Net Capital); and (vii) IT systems and Internet trading services platform. As of December 31, 2013, there were 66 PRC securities firms with a business presence in Jiangsu province and the top ten securities firms with securities brokerage businesses in Jiangsu province commanded 75.7% of the market share in terms of the trading volume

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of agency sale of securities. As of the same date, our local market share amounted to 8.8%, in terms of the trading volume of the agency sale of securities. As of December 31, 2013, there were 23 PRC securities firms with a business presence in Wuxi. In terms of the trading volume of agency sale of securities, we command 45.1% market shares, ranking the first place among those securities firms. For more information relating to the economy and the securities industry in Jiangsu province and China, see “Industry Overview.”

In 2014, there were 119 securities firms in China. Competition in the securities industry in Jiangsu province and China has been and is likely to remain intense. According to SAC, in 2013, in terms of revenue and profit, the top ten securities firms in China commanded an aggregate of 40.9% and 51.5% of the total market share in China, respectively. For our securities brokerage business, we mainly face competition from other securities firms with branches in Jiangsu province, such as Huatai Securities Co., Ltd., which is headquartered in Nanjing, the capital of Jiangsu province, Soochow Securities Co., Ltd., Nanjing Securities Co., Ltd. and Donghai Securities Co., Ltd. For our investment banking business, we compete primarily with other PRC securities firms. For our asset management business, we primarily compete with fund management companies, banks, insurance companies and other financial institutions in Jiangsu province and China.

Some of our competitors are much larger and may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience, wider geographic coverage, larger customer base and the ability to offer more diversified 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. If 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—We face intense competition in existing and emerging businesses, which could materially and adversely affect our business if we are unable to compete effectively.”

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, our Group owns two registered trademarks and one computer software copyright in China and two registered trademarks in Hong Kong. See “Appendix VI—Statutory and General Information—Further Information about our Business—Our intellectual property rights” to this prospectus for additional information.

We are subject to the uncertainty as to whether we are able to effectively protect our intellectual property rights. On January 11, 2012, Guolian Group applied to the trademark office of the State Administration for Industry and Commerce (hereinafter referred to as the “trademark office”) for the registration of its design trademark. On March 7, 2013, the trademark office issued the Notice of Trademark Rejection (《商標駁回通知書》), rejecting the trademark application made by Guolian Group for such design trademark on the ground that it is similar to the registered trademark by other parties in 2006. On March 29, 2013, Guolian Group applied to the Trademark Appeal Board of State Administration for Industry and Commerce (hereinafter referred to as the “Trademark Appeal Board”) for review, and received the Written Decision on Refused Review (《駁回複審決定書》). Subsequently, on May 16, 2014, Guolian Group filed an administrative proceeding with Beijing First Intermediate People’s Court, requesting the revocation of the Written Decision on Refused Review made by the Trademark Appeal Board and the re-issuance of a decision. In September 2014, this lawsuit was

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accepted by Beijing First Intermediate People's Court. As of the Latest Practicable Date, the commencement date of the hearing has not been finalized.

Although we currently have not submitted an application for the registration of "Guolian" as a word trademark, we have not used the word as a trademark other than in our Company name and for distinguishing purposes in the design trademark licensed by Guolian Group. According to Jingtian & Gongcheng, our PRC legal advisor, prominent usage as a trademark is a prerequisite for determining word trademark infringement. Thus, our PRC legal advisor has advised us that our existing usage of "Guolian" as a word in our Company name shall not be deemed as a form of trademark usage. Therefore, it will not constitute trademark infringement against any third party.

Jingtian & Gongcheng further advised us that (i) our right to use the design trademark in the financial services industry and the use of the word "Guolian" in our Company name is protected by law; (ii) administrative proceedings brought by Guolian Group would not have any adverse effect on our lawful right to use the design trademark of Guolian Group because Guolian Group owns the legitimate copyright on such design trademark and has the legal right to use it as a business logo or non-registered trademark, and Guolian Group is entitled to grant it for use by its affiliated companies. Even though such design trademark has not been registered, its long-term and continuous usage by Guolian Group and its affiliated companies has already made it highly recognizable in the PRC securities and financial industries, and it has been an established identification of Guolian Group and its affiliated companies, including us, which will not cause public confusion and misidentification. Even if the result of the administrative proceeding is not favorable, it only means that the design trademark cannot be registered as a trademark with trademark office, but its legitimate right as a non-registered trademark shall be protected by PRC laws, and Guolian Group still has the right to grant it for use by our Group; and (iii) our usage of the design trademark of Guolian Group will be protected as registered trademark by the relevant PRC laws and regulations after Guolian Group has received approval from the trademark office in relation to its registration application. In the event we are prohibited from using "Guolian" as a word in our Company name or the design trademark of Guolian Group, we will not be able to effectively leverage on the reputation, brand recognition and history of Guolian Group, in which case, we may not be able to successfully source new customers to grow our business or maintain our existing customer base. Please see "Risk Factors—Risks Relating to our Business and Industry—If our Group fails to adequately protect the intellectual property rights, our brand and reputation would be materially and adversely affected."

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EMPLOYEES

Our human resources department is in charge of the employee recruitment, training, compensation and performance appraisal. As of December 31, 2014 and the Latest Practicable Date, we had 1,136 and 1,201 employees, respectively. The following table sets forth our total number of employees by business function as of the Latest Practicable Date:

| | <u>Number of Employees</u> | <u>Percentage</u> |
|---|----------------------------|-------------------|
| Brokerage | 734 | 61.1% |
| Investment bank | 136 | 11.3% |
| Asset management | 45 | 3.8% |
| Direct investment | 40 | 3.3% |
| Credit transactions | 45 | 3.8% |
| Proprietary trading | 8 | 0.7% |
| Research | 29 | 2.4% |
| Compliance, risk management and finance | 63 | 5.2% |
| IT | 71 | 5.9% |
| Administrative | 30 | 2.5% |
| Total | <u>1,201</u> | <u>100.0%</u> |

The following table sets forth the breakdown of our employees by age, educational background and geographic region as of the Latest Practicable Date:

| | <u>Item</u> | <u>Number</u> | <u>Percentage</u> |
|------------------------|---|---------------|-------------------|
| Age | 30 or below | 588 | 48.9% |
| | 31 to 40 | 389 | 32.4% |
| | 41 to 50 | 186 | 15.5% |
| | 51 or above | 38 | 3.2% |
| | Total | <u>1,201</u> | <u>100.0%</u> |
| Educational background | Doctor's degree | 5 | 0.4% |
| | Master's degree | 288 | 24.0% |
| | Bachelor's degree | 747 | 62.2% |
| | Junior college graduate and below | 161 | 13.4% |
| | Total | <u>1,201</u> | <u>100.0%</u> |
| Geographical region | Jiangsu province | 834 | 69.4% |
| | Outside Jiangsu province | 367 | 30.6% |
| | Total | <u>1,201</u> | <u>100.0%</u> |

We believe the knowledge, experience, development and loyalty of our employees are vital to our long-term growth. The compensation we offer to our employees primarily includes base salary and bonus. We have adopted an incentive-based compensation scheme that links employees' remuneration with their performance, qualifications and positions. To attract and retain talented professionals commensurate with our growth objectives, we also offer additional monetary incentive to new employees that have obtained or are pursuing doctor's degree. In accordance with applicable PRC laws and regulations, we make contributions to various government-sponsored employees benefit funds, including medical insurance funds, basic pension insurance funds and unemployment, maternity and injury related insurance funds, as well as housing provident funds. We value our employees as important assets and provide them with continuing education and on-job training and encourage them to pursue advanced financial and accounting qualifications, such as sponsor representative and Chartered Financial Analyst.

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We primarily rely on campus recruitment programs, job advertisements on the Internet and referrals in our recruitment process. During the Track Record Period, we have also engaged third-party employment and recruitment agencies to identify and introduce potentially qualified candidates. For those employees hired by us through third-party employment and recruitment agencies, we are responsible for making contributions to various government-sponsored employee benefit funds.

We believe that we have maintained good relationships with our employees. As of the Latest Practicable Date, we had not experienced significant labor strikes or other labor disputes which have had or are likely to have a material and adverse effect on our business operations. We have also established labor unions and our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements.

INSURANCE

We maintain insurance coverage for our 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 is located at No. 8 Jinrong One Street, Wuxi, Jiangsu province, the PRC. As of the Latest Practicable Date, in the PRC, we owned 71 properties with an area of 48,948.61 sq.m. and we leased 56 properties with an gross floor area of approximately 56,582.79 sq.m. In addition, we are in the process of obtaining property ownership certificates for such properties with a gross floor area of 798.13 sq.m.

Owned Properties

As of the Latest Practicable Date, among our 71 owned properties in China, we have obtained the relevant building ownership certificates for 35 buildings with an aggregate gross floor area of 32,219.56 sq.m., and land use rights certificates for 36 parcels of land with an aggregate area of 16,729.05 sq.m. As advised by our PRC legal advisor, Jingtian & Gongcheng, we have the legal ownership or use right of such properties and we have the rights to occupy, utilize, generate income from and dispose of such properties.

In addition, we have acquired 10 buildings with an aggregate gross floor area of 798.13 sq.m., for which we have entered into housing sales contracts and made required payments. As of the Latest Practicable Date, we were in the process of obtaining the building ownership certificates for the above buildings. As advised by our PRC legal advisor, Jingtian & Gongcheng, there is no substantial legal impediment to obtaining titles for such buildings.

The properties we own are mainly used for our business operations and/or office purposes, with gross floor areas ranging from approximately 27.40 sq.m. to 5,458.16 sq.m.

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Leased Properties

As of the Latest Practicable Date, we have leased 56 properties in China, with an aggregate gross floor area of 56,582.79 sq.m. Our leased properties are used for office and operational purposes, with gross floor areas ranging from 40.25 sq.m. to 8,980.00 sq.m.

The following table sets forth our total rental expenses and average monthly rental expenses for the periods indicated:

| | As of December 31, | | |
|--|--------------------|------|------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Total rental expenses ⁽¹⁾ | 41.7 | 48.4 | 45.5 |
| Average monthly rental expenses ⁽¹⁾ | 3.5 | 4.0 | 3.8 |

Note:

(1) Except the house rent, the above rental also includes certain odd space rent.

For 46 leased properties with an aggregate gross floor area of 44,799.77 sq.m., representing 79.2% of the aggregate gross floor area of our leased properties, our landlords have obtained the relevant building ownership certificates. Our PRC legal advisor is of the view that the landlords of these 46 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 10 leased properties with an aggregate gross floor area of 11,783.02 sq.m., representing 20.8% 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 10 properties primarily for offices and securities branches.

As advised by our PRC legal advisor, as these 10 properties were leased properties, our results of operation and financial condition would not be materially and adversely affected 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 of the small leasehold area, multiple alternatives available to us and commitments made by the landlords. Most of the landlords fully indemnify us for all losses arising from leasing the leased properties without building ownership certificates, including, but not limited to, penalties imposed by the government, all relocation costs and the operating losses against the relocation. Our Directors are also of the view that the rental costs for the 10 properties with defective title would not be materially different should the landlords obtain relevant building ownership certificates. In addition, our Directors confirmed that they are not aware of any potential risk to the safety of these leased properties with defective titles.

As of December 31, 2014, no single property accounted for 15% or more of our total assets by book value. Accordingly, this prospectus is exempt from the requirements under the Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Listing Rules, a prospectus is exempt from this requirement if the carrying amount of a listing applicant's property interest that forms a part of its property activities or non-property activities is below 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 (Chapter 32L of the Laws of Hong Kong), with respect to the requirement under section 342(1)(b) of the Companies

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(Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) and under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

LEGAL AND REGULATORY COMPLIANCE

Licensing Requirements

We conduct all of our business in the PRC and are subject to its restrictions and regulatory requirements. Our Directors 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 licenses for conducting brokerage, margin financing and securities lending, underwriting and sponsorship, asset management and investment, and proprietary trading businesses. In particular, the Permits for Business Operations of Securities Business of PRC (《經營證券業務許可證》), granted to us and Hua Ying Securities by the CSRC, have the validity date of June 28, 2016 and April 24, 2017, renewable every three years. During the Track Record Period and up to the Latest Practicable Date, these licenses have not been suspended. To the best knowledge of our Directors, they 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 administrative penalty by the CSRC or its local counterparts.

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 advisor, Jingtian & Gongcheng, have confirmed that, as of the Latest Practicable Date, we and our Directors were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us or our Directors, that would, individually or in the aggregate, have a material adverse effect on our business, results of operations or financial condition.

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 PBOC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and their respective local branches and offices (if applicable). Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, except as disclosed below, there were no incidents of regulatory non-compliance that led to any administrative penalty or deduction of regulatory points by the CSRC or in which we or our employees were prosecuted or convicted.

| <u>No.</u> | <u>Non-compliance incidents</u> | <u>Brief explanation and our primary remedial measures</u> |
|------------|---|---|
| 1. | In July 2014, Taizhou Central Sub-branch of the PBOC conducted an on-site inspection to the performance of anti-money laundering obligations by our Taizhou Jichuan East Road branch during the period from January 1, 2013 to June 30, 2014, and issued the Law Enforcement and Inspection | We took immediate steps to rectify the issues identified in the on-site inspection and submitted a rectification report to Taizhou Central Sub-branch of the PBOC on August 15, 2014, which included our rectification measures as follows: (i) strengthen our anti-money laundering leadership |

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| No. | Non-compliance incidents | Brief explanation and our primary remedial measures |
|-----|--|--|
| | <p>Confirmation Letter (《執法檢查事實認定書》) on July 18, 2014, which identified the following issues: (i) the career information of some individual clients was not accurate; (ii) the identity information and data of some clients had not been updated timely; and (iii) failure to report on suspicious transactions.</p> <p>On November 25, 2014, it issued an administrative penalty decision of imposing a fine of RMB100,000, given that our Taizhou Jichuan East Road branch placed great emphasis on the issues identified in the on-site inspection, promptly rectified or proposed the corresponding remedial measures and initiatively mitigated the harmful results.</p> | <p>team’s ability to discharge its responsibilities, and set up team meetings in the beginning and middle of each year to assign specific anti-money laundering duties and tasks; (ii) timely amend, update and keep records of anti-money laundering internal control policies and implement standardized anti- money laundering policies and implementation rules; (iii) strengthen customer identification recognition ability, designate personnel to verify and supervise customers’ accounts on a centralized basis, and timely update customers’ information; (iv) improve ability to identify suspicious transactions, designate specialized personnel to analyze and report such transactions and pay close attention, on a daily basis, to fundamental customer information and transaction records; (v) strengthen anti-money laundering training and awareness through (a) posters on prominent positions in our securities branches posted daily and during publicity months; and (b) earnestly implement various anti-money laundering policies and organize special trainings for relevant employees; and (vi) further strengthen comprehensive supervision on anti-money laundering internal control policies to enhance overall improvement of our anti-money laundering capability.</p> <p>As of the Latest Practicable Date, we have not received any further administrative penalty or regulatory measure from the regulatory authorities with respect to this incident.</p> |
| 2. | <p>In February 2013, the CSRC Shanghai Bureau issued an administrative supervision measure decision letter to our Shanghai Caobao Road branch with respect to our failure to disclose relevant risks to a particular customer and our failure to pay return visit to such customer, requesting us to take remedial measures. As a result of this incident, the CSRC Shanghai Bureau deducted 0.75 regulatory points from our 2013 regulatory rating score, which largely contributed to us receiving a “BB” regulatory rating compared to a “BBB” rating in 2012.</p> | <p>After our investigation, we found this incident was caused by the branch staff’s negligence in complying with “Guolian Securities Customer Appropriate Management System” and “Guolian Securities Customer Revisit System.” Immediately after the incident, we had conducted in-depth and thorough inspections of our securities branches, studied and analyzed the relevant systems and procedures of customer appropriate management and revisit.</p> <p>To prevent recurrence of such incident, we adopted the following remedial measures: (i) organize our branch staff to have an in-depth understanding of, and carefully study, the “Guolian Securities Customer Appropriate Management System,” improve our procedures and practices in appropriate customer management and fully implement the system at all of our securities branches; (ii) organize our branch staff to carefully study the “Guolian Securities</p> |

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| No. | Non-compliance incidents | Brief explanation and our primary remedial measures |
|-----|--|--|
| | | <p>Customer Revisit System,” improve customer revisit procedures and clarify the requirements and contents of new customers revisits and compliance revisits; (iii) strengthen onsite customer management in our securities branches and improved day-to-day management and supervision of our transaction facilities and customer trading and transaction activities; and (iv) strengthen the day-to-day management and enhance compliance training and professional conduct management of our sales agents.</p> <p>We submitted a rectification report to the CSRC Shanghai Bureau to explain the situation and remedial measures we adopted, and have not received any objections to our remedial report or remedial measures. As of the Latest Practicable Date, we had not received any administrative penalty or further regulatory measure from the relevant regulatory authorities with respect to this incident.</p> |
| 3. | <p>In October 2013, the CSRC Jiangsu Bureau issued an administrative supervision measure to our then employee at our Changzhou Tongjiang Avenue branch with respect to his misconduct as a result of breach of our operational procedures when transferring funds and buying and selling stocks on customers’ behalf. The client instituted proceeding against us and our Changzhou Tongjiang Avenue branch for the losses arising from transferring funds and buying and selling stocks on her behalf. The complaint alleged that between August 1, 2011 and December 27, 2012, 662 stock trades were conducted under her account by our employee on her behalf, resulting in substantial losses. However, we did not authorize our employee to conduct trading on her behalf, nor were we aware that she had authorized our employee to conduct trading on her behalf. In addition, in our response to the complaint, we confirmed having provided to the plaintiff required documents in connection with account opening in accordance with our existing procedures, each of which was signed by the plaintiff confirming receipt thereof. These documents collectively informed the plaintiff the scope of our services, which prohibited her from designating all of the account trading activities to our employee, who was her securities brokerage agent, and which required her to safeguard her account password for security purposes. On August 4, 2011, we made a customer callback during which we again urged</p> | <p>After our investigation, we found the employee had violated the relevant provisions of “Securities Law” and “Interim Provisions on the Securities Broker Management.”</p> <p>After we became aware of the employee misconduct, according to “Guolian Securities Marketing Management System” and “Guolian Securities Penalties for Employee Misconduct and Leadership Accountability System,” we immediately adopted the following remedial measures against the employee: (i) initiated company-wide criticism on his misconduct; (ii) suspended his marketing activities and withheld his sales bonus; (iii) suspended his employment for three months during which time he was required to study the relevant rules and regulations; and (iv) will make further decision on whether to impose other penalties in accordance with his performance during the three-month suspension.</p> <p>On November 27, 2013, we submitted a “Rectification Report regarding to the Implementation of Regulatory Concern Letter” to the CSRC Jiangsu Bureau, which reported the following rectification work: (i) strengthen the study and training of laws and regulations, industry standards and corporate management systems to ensure that our employees have in-depth understanding of the various non-</p> |

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| No. | Non-compliance incidents | Brief explanation and our primary remedial measures |
|-----|---|--|
| | <p>the plaintiff to keep her account password safe and reaffirmed our requirement that designating trading activities to her securities brokerage agent is prohibited. On May 27, 2013, Changzhou Xinbei District People's Court rejected the plaintiff's claims as it considered the misconduct of such employee to be an individual behavior (for which our Company and the securities branch concerned disclaimed any responsibility), including the compensation for the loss of approximately RMB350,000 required by the plaintiff. Thereafter, the plaintiff filed an appeal to Changzhou Intermediate People's Court of Jiangsu Province. On November 13, 2013, Changzhou Intermediate People's Court of Jiangsu Province rejected plaintiff's appeal and affirmed the original judgment. This ruling was final.</p> | <p>compliance and prohibited behaviors; (ii) install a unified safe management system on office computers of all employees and prohibit our employees from using their office computers for securities investment transactions; (iii) compliance and risk control personnel check, on a bi-monthly basis, whether our marketing personnel had the same IP and MAC address entrusted to them and regularly checked their mobile phones and computers. For any abnormal situation identified, the relevant personnel verified the situation by telephone callback, and then the marketing personnel gave the explanation; (iv) focus on matching the products risks with customer risk tolerance capacity when introducing the products; (v) identify our customers with different risk tolerance through online risk tolerance assessment system and correspondingly release the business authority; and (vi) strengthen our telephone callback policy in the brokerage business, and further unify and standardize the work standards of customer revisits.</p> <p>We also requested all our employees to draw a lesson from this incident, strictly follow the relevant rules and regulations in conducting their daily work activities, improve compliance awareness and risk control ability to ensure operational compliance. We conduct self-inspection annually to ensure our employees' professional behavior is in compliance. Moreover, on August 21, 2013, our brokerage business management headquarters issued a Notice on Further Strengthening Customer Callback to require our sales personnel to reach out to customers who conducted abnormal transactions or update the customer contact information if our sales personnel fail to reach them twice. In the event telephone callback fails for the third time, the securities brokerage relationship between us and such customer will be suspended. In August 2013, our customer service management department amended and improved the Standards of Customer Callback, which include using "95570" as a unified customer service number, keeping brief record of the telephones calls made, clarifying key points in customer callbacks and revisiting and requiring our securities branches to report the results of their customer callbacks and revisits on a monthly basis. As of the Latest Practicable Date, we had not received any administrative penalty or further regulatory measure from the relevant regulatory authorities with respect to this incident.</p> |

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| No. | Non-compliance incidents | Brief explanation and our primary remedial measures |
|-----|--|---|
| | | <p>Based on (i) the remedial measures we have adopted and enhanced as mentioned above; (ii) the fact that there was no internal weakness identified in relation to our tracking, handling and monitoring procedures and management of the opening of clients' securities accounts and the trading activities of such securities accounts in the internal control assessment; and (iii) as of the Latest Practicable Date, no similar non-compliance incidents have been identified, reported by our customers or noticed by the relevant regulatory inspections or our Company, our Directors are of the view that the remedial actions and enhanced internal control measures are adequate and effective to prevent recurrence of similar non-compliance incidents in the future. After making reasonable inquiries to us about such non-compliance incidents and review of the internal control report, nothing has come to the attention of the Joint Sponsors which may cause them to disagree with our view.</p> |
| 4. | <p>In December 2013, Wuxi National Tax Inspection Bureau issued a tax administrative penalty decision letter to Hua Ying Securities, with respect to the non-compliant accounting treatment on the calculation of long-term prepaid expenses, receipts of travelling expenses for its management and the consideration paid for the seat on the Shanghai Stock Exchange. As a result of this letter, Hua Ying Securities' taxable income increased by approximately RMB1.3 million in 2011 to cover the deficit and decreased by approximately RMB0.8 million in 2012. It was fined RMB10,000.</p> | <p>Hua Ying Securities made relevant accounting adjustment on final settlement and payment as required by Wuxi National Tax Inspection Bureau and paid the penalties of RMB10,000. As of the Latest Practicable Date, we have not received other administrative penalty from the regulatory authorities with respect to this incident.</p> |

Our Directors and our PRC legal advisor, Jingtian & Gongcheng, 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 other regulatory non-compliance incidents that could have a material adverse effect on our business, financial condition or results of operations. None of our Directors or any member of our senior management was directly involved in the foregoing non-compliance incidents. Based on (i) the immateriality of our non-compliance incidents; (ii) the internal control measures we have enhanced and adopted pursuant to recommendations made by an internal control consultant; and (iii) the foregoing legal advice from our PRC legal advisor, Jingtian & Gongcheng, our Directors are of the view that (a) we have adequate and effective internal controls; (b) it is unnecessary to make any provision for these non-compliance incidents; and (c) such incidents do not affect the suitability of our Directors and our suitability for Listing.

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. Other than certain inspections that have resulted in non-compliance incidents with administrative supervision measures such as any fines or other administrative penalties or demerits imposed by the relevant PRC regulatory authorities as described above, some of the inspections have 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 some examples of such inspections during the Track Record Period:

- In September 2014, Shanghai Securities Association conducted a special on-site inspection at our Handan Road branch in respect of the commission self-discipline issue, and issued Notice on Self-Discipline Measures Taken by Guolian Securities Handan Road Branch (《關於對國聯證券邯鄲路營業部採取自律措施的通報》) on September 17, 2014 and pointed out that, our Handan Road branch provided “Caifutong” (財富通) “Bibihui” (筆筆惠) and “Bibitong” (筆筆通) services, which charged our customers new brokerage commission rates for tradings conducted under such programs, without prior reporting, which were in contravention to the relevant provisions as stipulated by SAC and Shanghai Securities Association. Moreover, it failed to perform its obligations to report and properly disclose after receiving notification from the Shanghai Securities Association. Self-discipline measures were taken against our Handan Road branch, including criticism and request for rectification.

After conducting our internal investigation and frequent communication with the CSRC Jiangsu Bureau, we submitted a rectification report to the CSRC Jiangsu Bureau on July 21, 2014, reporting that we planned to stop promoting these services with the new brokerage commission rate at 12:00 midnight on July 26, 2014. As of the Latest Practicable Date, we have not received any administrative penalty or regulatory measure from the relevant regulatory authorities with respect to this incident.

- During the period from July 14, 2014 to July 28, 2014, the PBOC Guilin Central Sub-branch conducted an inspection against our Guilin Binjiang Road branch in respect of our implementation of anti-money laundering and anti-terrorist financing during the period from January 1, 2013 up to the inspection date, and issued “Law Enforcement and Inspection Opinion Letter” (《執法檢查意見書》) on August 20, 2014, which identified the following issues: (i) failure to report the set-up status of internal control system in respect of anti-money laundering to the local bureau of PBOC; and (ii) failure to specify the duties of the relevant posts relating to anti-money laundering. According to the relevant regulations, it issued a rectification opinion to our Guilin Binjiang Road branch, which ordered us to make correction within the prescribed time limit, and suggested it to (i) intensify the anti-money laundering measures and strengthen the awareness of anti-money laundering; (ii) reinforce the reporting management of regulatory information about anti-money laundering; and (iii) establish a clear and sound duties on anti-money laundering.

As at September 10, 2014, our Guilin Binjiang Road branch submitted a rectification report to the anti-money laundering department of the local bureau of PBOC to report the

implementation of rectification as follows: (i) our Guilin Binjiang Road branch strengthened the anti-money laundering training, studied the applicable laws and regulations and the implemented rules we formulate for internal use to improve the comprehensive quality and skill level on anti-money laundering among our staff; (ii) our Guilin Binjiang Road branch strengthened the regulatory information reporting of anti-money laundering and strictly complied with the Measure of Anti-money Laundering Off-site Supervision (Provisional) (《反洗錢非現場監督辦法(試行)》). The anti-money laundering specialist was responsible for reporting the relevant information and other issues relating to anti-money laundering to the PBOC Guilin Central Sub-branch, strengthening the contacts and communications with the local bureau of PBOC, and understanding and complying with the regulatory guidance and regulatory focus against the anti-money laundering imposed by PBOC; and (iii) in accordance with the Anti-Money Laundering Law of PRC (《中華人民共和國反洗錢法》) and the Anti-Money Laundering Regulation for Financial Institutions (《金融機構反洗錢規定》), our Guilin Binjiang Road branch standardized the securities trading and prevented illegal and criminal activities by using our securities trading system. As of the Latest Practicable Date, we have not received any objections and follow-up comments to this report.

- The CSRC Jiangsu Bureau conducted a special on-site inspection on our asset management business and investor protection in March 2014, and issued a regulatory concern letter to us on April 22, 2014, which highlighted the following issues: (i) there were deficiencies in our business system: (a) there were no clear procedures to deal with the insufficient liquidity in the asset management business; (b) the system and processes did not specify the procedures to be performed in investing the clients' assets in the securities issued by us and the companies affiliated with us and the restrictions on investment ratio; (ii) the disproportion of assets was not timely reported; (iii) there were inconsistencies between the contents reported to the regulatory authorities and actual facts; (iv) there were incorrect statements in the power of attorney; (v) some of external documents bore no date; and (vi) the personnel who were responsible for telephone calling back were involved in development and maintenance of the customers.

As of April 30, 2014, we submitted a rectification report to the CSRC Jiangsu Bureau to explain the remedial measures we adopted: (i) our asset management department may deal with the insufficient liquidity in the asset management business through certain direct disposal measures, such as initiating extension, implementing secondary liquidation and pledging additional collaterals and closing the position, so as to ensure sufficient liquidity. Meanwhile, our asset management department makes arrangements in advance for the liquidity demand of the investments by conducting investigation on the liquidity demand of our customers; (ii) our asset management department strengthens the monitoring indicators during the course of our operation and strictly implements the risk control indicators for each product; (iii) we strengthen the review work in the process of reporting the relevant facts to the public and designate the dedicated personnel to conduct such review before and after the reporting; (iv) we timely revised the template of the power of attorney; (v) the undated external documents will be retroactively signed, and in the future, we will also remind the relevant officers to sign the documents at appropriate times; (vi) with respect to the protection of the investors: (a) revise and improve the Management System of Customer Feedback Visit of Guolian Securities (《國聯證券客戶回訪管理制度》); (b) organize the trainings on compliance system and customer feedback visit system for

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the relevant personnel to enhance their professional competence; (c) optimize and standardize the workflow of customer feedback visit; (d) strengthen the inspection efforts of customer feedback visits and timely rectify the issues and deficiencies. As of the Latest Practicable Date, we have not received any objections and follow-up comments to this response.

- The CSRC Jiangsu Bureau conducted a special inspection on our compliance and risk control for innovative businesses in January 2014, and issued a regulatory concern letter on January 8, 2014, which contained the following issues: (i) with respect to the sales of financial products of related parties on a commission basis, we failed to disclose the relationship between ourselves and the principal to the clients; and (ii) with respect to the risk control system of our securities repurchase business, the concentration index of the securities repurchase was not in line with the relevant regulatory requirements.

We organized training for the heads of relevant business departments and developed the implementation plan for the remedial measures. On January 27, 2014, we submitted a rectification report to the CSRC Jiangsu Bureau, which detailed the following rectifications: (i) with respect to the sales of financial products on a commission basis: (a) further improve the relevant internal systems; (b) conduct the product roadshow and training at early stage of the sales of financial products on a commission basis, during which the principals fully demonstrate the benefits and risk of the products, and also focus on the disclosure of the relationship, if any; (c) explicitly stipulate that the Risk Disclosure Statement of Sales of Financial Products on a Commission Basis of Guolian Securities 《國聯證券代銷金融產品風險揭示書》 shall be signed during the course of sales of financial products on a commission basis; if any associated relationship is involved, fully disclose such relationship prominently in a risk statement; (d) confirm such associated relationship with the client during the follow-up compliance visit after the completion of such transaction; and (ii) with respect to our securities repurchase business, the securities concentration risk control index system will be adjusted in accordance with the relevant provisions. As of the Latest Practicable Date, we have not received any objections and follow-up comments to this response.

- Since September 2012, the CSRC Jiangsu Bureau conducted a comprehensive on-site inspection on our headquarters and issued a regulatory letter to us on November 16, 2012 with respect to our various business operations. The letter identified the following issues: (i) with regard to the establishment of our internal control system, there were weaknesses in our securities brokerage, asset management and investment banking businesses, as well as customer complaint handling and performance appraisal system; and (ii) with respect to the implementation of our various existing internal control and risk management systems, there were insufficiencies in our corporate governance, compliance and risk control, accounting and audit, IT system management, securities brokerage, proprietary trading, asset management, investment banking, direct investment, securities research and securities investment advisory businesses.

We took immediate measures, which include: (i) improving our corporate governance and incorporated compliance management as part of our annual assessment on members of our senior management, our business departments, securities branches and individual employees; (ii) strengthening the implementation of our compliance with applicable laws, regulations and internal policies and procedures; (iii) emphasizing adequate and timely

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filing and recording of customer complaint materials; and (iv) enhancing the coverage of customer risk tolerance assessment updates. In December 2012, we submitted a rectification report to the CSRC Jiangsu Bureau, and as of the Latest Practicable Date, we have not received any objection or follow-up comments to this response.

CONNECTED TRANSACTIONS

CONNECTED PERSONS

Immediately following the Global Offering, Guolian Group will be entitled to exercise or control the exercise of approximately 68.484% of voting rights at the general meetings of our Company, and therefore Guolian Group will still be a Controlling Shareholder of our Company. Pursuant to Rule 14A.07(1) and (4) of the Listing Rules, Guolian Group and its associates (including but not limited to Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial), are connected persons of our Company.

Accordingly, transactions between such connected persons and our Group will constitute connected transactions under Chapter 14A of the Listing Rules upon Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, our Group entered into a number of transactions with Guolian Group and certain of its associates which are expected to continue after the Listing and will constitute continuing connected transactions of our Company and will be subject to reporting, annual review and announcement requirements upon Listing under the Listing Rules.

Details of such connected transactions (the “Non-exempt Continuing Connected Transaction(s)”) are set out as follows.

Securities and Financial Services Framework Agreement

Principal Terms

We entered into a securities and financial services framework agreement with Guolian Group on June 15, 2015 (the “Securities and Financial Services Framework Agreement”), pursuant to which our Group will provide securities and financial services including securities brokerage and futures IB, asset management, agency sales of financial products and financial advisory services to Guolian Group and/or its associates on normal commercial terms.

The Securities and Financial Services Framework Agreement will be effective from the Listing Date and end on December 31, 2017. Separate contracts will be entered into between us and Guolian Group and/or its associates to set out the specific terms and conditions for each type of services pursuant to the principal terms stipulated in the Securities and Financial Services Framework Agreement.

Reasons for the Transaction

During the Track Record Period, our Group provided securities and financial services to its customers, including Guolian Group and/or its associates, such as securities brokerage and futures IB, asset management, agency sales of financial products and financial advisory services pursuant to which our Group received service fees and commissions. Guolian Group and its associates intend to continue to engage our Group for the abovementioned securities and financial services after the Listing.

Pricing Basis

Pursuant to the Securities and Financial Services Framework Agreement, the service fees and commissions to be charged by our Group for the provision of relevant securities and financial services

CONNECTED TRANSACTIONS

shall be based on arms' length negotiations between the parties by reference to the prevailing market rates of the specific type of services provided and shall be in compliance with the applicable laws and regulations.

The commissions for the provision of securities brokerage and futures IB services will be determined based on the securities trading volume with reference to the commissions charged by our Company for the provision of similar services to Independent Third Parties and/or the prevailing market rates; the service fees for the provision of targeted asset management services will be determined based on the standard fee rate for each separate asset management scheme and fees for the provision of specialized asset management services will be determined by arms' length negotiations between the parties by reference to the prevailing market rates and relevant factors such as the amount of asset to be managed, the management term, etc.; the service fees for the provision of agency sales of financial products will be determined based on the amount of financial products for agency sales with reference to the service fee rate charged by our Company for the agency sales service of similar financial products provided to Independent Third Parties; the service fees and commissions for the provision of financial advisory services will be determined based on the nature of the transactions with reference to the prevailing market rates and in accordance with the applicable laws and regulations.

Historical Figures

A breakdown of historical transaction amounts in respect of the service fees and commissions paid by Guolian Group and its associates to us for each of the three years ended December 31, 2014 are as follows:

| <u>Securities and financial services</u> | Historical figures for the year ended December 31, | | |
|--|---|--------------|--------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Revenue | | | |
| Securities brokerage and futures IB services | 4.61 | 3.74 | 2.86 |
| Asset management services | 2.82 | 3.20 | 4.10 |
| Agency sales of financial products services | — | 1.73 | 4.57 |
| Financial advisory services | 1.68 | 4.10 | — |
| Total | <u>9.11</u> | <u>12.77</u> | <u>11.53</u> |

Annual Caps

The estimated annual caps for the transactions contemplated under the Securities and Financial Services Framework Agreement for each of the three years ending December 31, 2017 are as follows:

| <u>Securities and financial services</u> | Annual caps for the year ending December 31, | | |
|--|---|--------------|--------------|
| | 2015 | 2016 | 2017 |
| | (RMB in millions) | | |
| Revenue | | | |
| Securities brokerage and futures IB services | 4.70 | 5.16 | 5.65 |
| Asset management services | 5.33 | 6.33 | 7.33 |
| Agency sales of financial products services | 5.00 | 5.50 | 6.00 |
| Financial advisory services | 1.20 | 1.20 | 1.20 |
| Total | <u>16.23</u> | <u>18.19</u> | <u>20.18</u> |

CONNECTED TRANSACTIONS

Since November 2014, trading in the PRC securities market has become more active and resulted in increased trading volume. In the beginning of 2015, such trend continued and trading volume has reached historical high. Our Directors expect that the securities market in the PRC will continue to be booming in the near future, with substantial increase in need of securities brokerage services, as well as other related services, such as futures IB services, asset management services, and agency sales of financial products services under the Securities and Financial Services Framework Agreement. Therefore, our Directors expect that the revenue receivable under the Securities and Financial Services Framework Agreement for each of the three years ending December 31, 2017 will increase significantly compared with the historical transaction amount, and accordingly, the annual caps under the Securities and Financial Services Framework Agreement increased significantly.

In determining the annual caps, our Directors have also considered, among other things, the following key factors:

- historical transaction amounts;
- the reasonably expected ranges of services fees and commissions;
- the expected growth of our brokerage and futures IB services, asset management, agency sales of financial products and financial advisory business; and
- the anticipated frequency of transactions under the Securities and Financial Services Framework Agreement.

In addition, the annual caps were determined based on the assumption that, for the duration of the Securities and Financial Services Framework Agreement, there will not be any adverse change in market conditions, operation and business environment or government policies which may materially affect the business of our Group and that of Guolian Group and its associates.

Listing Rules Implications

Each of the applicable percentage ratios (other than profits ratio) under Chapter 14A of the Listing Rules is, on an annual basis, less than 5%. By virtue of Rule 14A.76(2) of the Listing Rules, the transactions contemplated under the Securities and Financial Services Framework Agreement will constitute continuing connected transactions for our Group subject to reporting, annual review and announcement requirements but exempt from the circular and independent Shareholders' approval requirements stipulated under the Listing Rules.

Property Leasing and Related Services Framework Agreement

Principal Terms

We entered into a property leasing and related services framework agreement with Guolian Group on June 15, 2015 (the "Property Leasing and Related Services Framework Agreement"), pursuant to which (i) our Group will lease certain properties from Guolian Group and/or its associates for office and/or business use, and will also engage an associate of Guolian Group for the provision of relevant services in relation to the properties occupied by our Group; and (ii) certain of Guolian Group's associates will lease certain properties from us for office and/or business use.

The Property Leasing and Related Services Framework Agreement will be effective from the Listing Date and end on December 31, 2017. Separate contracts will be entered into between us and

CONNECTED TRANSACTIONS

Guolian Group and/or its associates to set out the specific terms and conditions for each leased property and property related services pursuant to the principles stipulated in the Property Leasing and Related Services Framework Agreement.

Reasons for the Transactions

Historically, our Company has leased certain properties from Guolian Group and/or its associates for office and/or business use, and engaged an associate of Guolian Group for the provision of property related services. In addition, certain associates of Guolian Group have leased certain properties from us for office and/or business use. The relevant parties intend to continue these transactions after the Listing.

Existing Transactions

During the Track Record Period, we have leased the following properties from Guolian Group and/or its associates and such leasing transactions are expected to continue after the Listing:

- Our Company leased from Wuxi Guolian New City Investment Co., Ltd.* (無錫國聯新城投資有限公司, “Guolian New City Investment”), an indirect wholly-owned subsidiary of Guolian Group, certain properties with a total gross floor area of 7,866.37 sq.m., which are located at Wuxi Finance Center, No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC. Such properties were for our headquarters office use, with an annual rental of RMB6.32 million for each of the two years ended December 31, 2014.
- Our Company leased from Wuxi Sainuo Asset Management Center* (無錫賽諾資產管理中心, “Wuxi Sainuo”), a direct wholly-owned subsidiary of Guolian Group, certain properties with a total gross floor area of 2,600 sq.m., which are located at 1-2 Floor, No. 60, Wuai North Road, Wuxi, Jiangsu Province, the PRC. Such properties were used as our branch office premises, with annual rental of RMB0.63 million, RMB0.52 million and RMB0.63 million for each of the three years ended December 31, 2014, respectively.
- Our Company leased from Guolian Group certain properties with a total gross floor area of 2,950 sq.m., which are located at 1-2 Floor, Guolian Tower, No. 168 Xianqian East Road, Wuxi, Jiangsu Province, the PRC. Such properties were used as our branch office premises, and were leased to us free of charge.

During the Track Record Period, our Company also engaged Wuxi Guolian Property Management Co., Ltd.* (無錫國聯物業管理有限責任公司, “Guolian Property Management”), an indirect wholly-owned subsidiary of Guolian Group, for the provision of property related services, including backup power service for our headquarters office and property management service for certain of our securities branches (the “Related Services”), and such transactions are expected to continue after the Listing.

During the Track Record Period, Guolian Group and/or certain of its associates have leased the following properties from us and such leasing transactions are expected to continue after the Listing:

- Our Company leased to Shanghai branch office of Guolian Futures certain properties, with a total gross floor area of 400 sq.m., which are located at No. 98 Handan Road (Jia), Yangpu District, Shanghai, the PRC. Such properties were used as office with an annual rental (including property management fee) of approximately RMB0.39 million. For the year ended December 31, 2014, we recorded rental income of RMB0.16 million.

CONNECTED TRANSACTIONS

- Our Company leased to Guolian Property Management certain properties with a total gross floor area of 806.62 sq.m., which are located at No. 28 Liangxi Road, Wuxi, Jiangsu Province, the PRC. Such properties were used as office and were leased to Guolian Property Management free of charge.

Pricing Basis

Under the Property Leasing and Related Services Framework Agreement, the rental for the relevant leased properties shall be determined based on arm's length negotiations between the relevant parties by reference to the prevailing market rental of properties with similar locations and sizes to the relevant leased properties, and the fees for the Related Services shall be determined based on arm's length negotiations between the relevant parties by reference to the fees charged by Guolian Property Management to Independent Third Parties for similar services.

Historical Figures

A breakdown of the historical transaction figures in respect of the above-mentioned rental and/or fees received or paid by us from or to Guolian Group and/or its associate, respectively, for each of the three years ended December 31, 2014 is as follows:

| | Historical figures for the year ended December 31, | | |
|---|---|------|------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Rental expenses incurred for lease of properties from Guolian Group and/or its associates | 0.63 | 6.84 | 6.95 |
| Fee expense incurred for the Related Services | 3.82 | 3.82 | 3.88 |
| Rental income received from lease of properties to Guolian Group's associates | — | — | 0.16 |

Annual Caps

The estimated annual caps for the rental and/or fees payable or receivable by us under the Property Leasing and Related Services Framework Agreement for each of the three years ending December 31, 2017 are as follows.

| | Annual caps for the year ending December 31, | | |
|---|---|------|------|
| | 2015 | 2016 | 2017 |
| | (RMB in millions) | | |
| Rental expenses incurred for lease of properties from Guolian Group and/or its associates | 7.70 | 9.35 | 9.35 |
| Fee expense incurred for the Related Services | 4.00 | 4.00 | 4.00 |
| Rental income received from lease of properties to Guolian Group's associates | 1.30 | 1.30 | 1.30 |

As certain leasing transactions that were free of charge during the Track Record Period will be subject to rentals going forward, the annual caps of rental expenses and rental income for each of the three years ending December 31, 2017 are higher than the historical transaction amount.

CONNECTED TRANSACTIONS

In determining the abovementioned annual caps under the Property Leasing and Related Services Framework Agreement, our Directors have considered, among other things, the rentals and fees charged for the leased properties under the existing leases agreement and the expected future property market conditions.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an Independent Third Party property valuer, is of the opinion that, as of June 1, 2015, the expected annual rentals under the Property Leasing and Related Services Framework Agreement are fair and reasonable and represent the prevailing market rates for properties with similar locations and sizes that are used for similar purposes, or better to our Group.

Listing Rules Implications

Each of the applicable percentage ratios (other than profits ratio) under Chapter 14A of the Listing Rules is, on an annual basis, less than 5%. By virtue of Rule 14A.76(2) of the Listing Rules, the transactions contemplated under the Property Leasing and Related Services Framework Agreement will constitute continuing connected transactions for our Group subject to reporting, annual review and announcement requirements but exempt from the circular and independent Shareholders' approval requirements stipulated under the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As the Non-exempt Continuing Connected Transactions are expected to be carried out after the Listing on a continuing and recurring basis, the Directors consider that strict compliance with the announcement requirement under Chapter 14A of the Listing Rules would be unduly burdensome, impractical and would add unnecessary administrative costs to our Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a conditional waiver to us pursuant to Rule 14A.105 of the Listing Rules from compliance with the announcement requirements under Chapter 14A of the Listing Rules in respect of the Non-exempt Continuing Connected Transactions subject to the condition that the annual transaction value shall not exceed the relevant proposed annual caps set out above.

In addition, we will comply with the applicable requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.34, 14A.51 to 14A.59 and 14A.71(6) of the Listing Rules in relation to the Non-exempt Continuing Connected Transactions and the maximum aggregate annual cap for each Non-exempt Continuing Connected Transaction for each of the three years ending December 31, 2017, and will re-comply with relevant Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the Non-exempt Continuing Connected Transactions, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable timeframe.

CONNECTED TRANSACTIONS

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that the Non-exempt Continuing Connected Transactions as set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the proposed annual caps for these transactions are fair and reasonable and in our interests and the interests of our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that the Non-exempt Continuing Connected Transactions (i) will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better; and (ii) are fair and reasonable and in the interests of the Shareholders as a whole. The Joint Sponsors have further confirmed that the proposed annual caps for these transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUMMARY INFORMATION OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our Directors, Supervisors and senior management. Our Directors, Supervisors and senior management all meet the qualification requirements under relevant PRC laws and regulations and the Listing Rules for their respective positions except for the waivers as to management presence in the section headed “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Responsibilities</u> | <u>Effective date of appointment of current position</u> | <u>Date of joining our Company</u> |
|--------------------|------------|--|---|--|------------------------------------|
| Directors | | | | | |
| Yao Zhiyong 姚志勇 | 43 | Executive Director and Chairman of the Board | Responsible for formulation of our corporate and business strategies, making major corporate and operational decisions; presiding at Board meetings; supervising and examining the execution of Board resolutions and exercising power of the legal representative of our Company; supervising Audit Department | August 22, 2012 | August 1994 |
| Lei Jianhui 雷建輝 | 47 | Executive Director and President | Responsible for formulation of our corporate and business strategies and making major corporate and operational decisions; responsible for the overall operation and management of our Company; supervising Human Resources Department, Proprietary Trading Department, Information Technology Headquarters and Internet Financing Department | June 10, 2008 | July 2001 |

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Responsibilities</u> | <u>Effective date of appointment of current position</u> | <u>Date of joining our Company</u> |
|----------------------------|------------|---|--|--|------------------------------------|
| Hua Weirong 華偉榮 | 50 | Non-executive Director | Participating in formulation of our corporate and business strategies and decision-making of significant events | May 23, 2008 | January 2002 |
| Jiang Zhijian 蔣志堅 | 47 | Non-executive Director | Same as above | May 23, 2008 | May 2008 |
| Liu Hailin 劉海林 | 37 | Non-executive Director | Same as above | October 16, 2008 | October 2008 |
| Liu Gaoyuan 柳高遠 | 50 | Non-executive Director | Same as above | June 23, 2014 | June 2014 |
| Wang Wei 王巍 | 56 | Independent non-executive Director | Participating in formulation of 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 | March 19, 2015 | March 2015 |
| Chen Qingyuan 陳清元 | 38 | Independent non-executive Director | Same as above | October 24, 2014 | October 2014 |
| Fan, Yan Hok Philip 范仁鶴 | 65 | Independent non-executive Director | Same as above | March 20, 2015 | March 2015 |
| Supervisors | | | | | |
| Yin Zhuowei 殷卓偉 | 52 | Chairlady of the Supervisory Committee and employee representative Supervisor | Presiding over the Supervisory Committee; supervising the operational and financial activities of our Company | February 12, 2007 | January 1993 |
| Yang Xiaojun 楊小軍 | 42 | Shareholder representative Supervisor | Supervising the operational and financial activities of our Company | April 18, 2013 | April 2013 |
| Jin Guoxiang 金國祥 | 54 | Shareholder representative Supervisor | Same as above | May 23, 2008 | May 2008 |

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Responsibilities</u> | <u>Effective date of appointment of current position</u> | <u>Date of joining our Company</u> |
|--------------------------|------------|---|---|--|------------------------------------|
| Zhou Weixign 周衛星 | 52 | Shareholder representative Supervisor | Same as above | August 2, 2013 | August 2013 |
| Shan Xudong 單旭東 | 53 | Employee representative Supervisor | Same as above | June 25, 2008 | November 1992 |
| Senior management | | | | | |
| Jiang Zhiqiang 江志強 | 45 | Vice President | Participating in the daily management and operation of our Company and responsible for Brokerage Business Management Headquarter, Credit Transaction Department, Institutional Business Management Headquarters and branch offices of our Company | September 19, 2011 | October 1993 |
| Peng Yanbao 彭焰寶 | 48 | Vice President | Participating in the daily management and operation of our Company and responsible for Asset Management Department, Financial and Accounting Department, Depository Center and Operation Management Center | August 27, 2009 | April 1994 |
| Li Zhengquan 李正全 | 38 | Vice President and the secretary to the Board | Participating in the daily management and operation of our Company and responsible for Central Office, OTC Market Department and Research Department; and responsible for the administrative affairs of the Board | April 8, 2014 | July 2011 |

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Responsibilities</u> | <u>Effective date of appointment of current position</u> | <u>Date of joining our Company</u> |
|---------------------|------------|--|--|--|------------------------------------|
| Xu Faliang 徐法良 | 51 | Chief Compliance Officer | Participating in the daily management and assisting the Chairman and the President with the supervision of Audit Department and Compliance and Risk Control Department, respectively | December 14, 2008 | March 1993 |
| Chen Zhiying 陳志穎 | 40 | Chief Financial Officer and Chief Risk Officer | Participating in the daily management and responsible for the financial management and risk assessment and control of our Company | March 4, 2015 | January 2005 |

BOARD OF DIRECTORS

According to the Articles of Association, the Board comprises nine Directors. The term of service for each Director is three years, and Directors are permitted to be re-elected. Independent non-executive Directors may not serve for more than six consecutive years. The responsibilities of the Board include but are not limited to:

- executing the resolutions of the shareholders' general meetings and convening and reporting to the general meetings;
- formulating business plans, investment plans, financial plans, profit distribution plans and plans for securities issuance of our Company;
- making decision on the establishment of our Company's internal management structures and branches and formulating the basic management policies of our Company;
- appointing, reviewing and dismissing the senior management of our Company;
- managing the information disclosure of our Company; and
- performing its duties pursuant to the relevant PRC laws and regulations, the Listing Rules, the Articles of Association and resolutions of the shareholders' general meetings.

Directors

Mr. Yao Zhiyong (姚志勇), aged 43, has been an executive Director and the Chairman of the Board of our Company since August 2012 and May 2013, respectively. Mr. Yao has approximately 21 years' experience in the financial industry, including securities and financial investment, and 15 years experience in corporate management. Mr. Yao joined our Group in August 1994 and served successively as a sales staff of Huaqiang Company* (華強公司) affiliated to Wuxi Securities Company* (無錫市證券公司), a company which is mainly engaged in trading and investment business, a business clerk in the investment department, a floor trader stationed at the Shanghai Stock Exchange and an

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

office director of two securities branches of our Company during the period from August 1994 to November 2000. From November 2000 to December 2003, Mr. Yao served successively as an investment manager, manager and deputy general manager of the securities research department in Wuxi Guolian Investment Management Consulting Co., Ltd.* (無錫市國聯投資管理諮詢有限公司, “Guolian Investment Management”). From January 2004 to December 2004, Mr. Yao served as a deputy general manager in the securities investment department of Guolian Group, and then served as the chairman of the board of directors and general manager of Guolian Investment Management from January 2005 to December 2008. He then worked in Wuxi Guolian Financial Investment Group Co., Ltd.* (無錫國聯金融投資集團有限公司, “Guolian Financial Investment”) as the assistant president and the general manager of the strategic development department from May 2009 to June 2012, and also concurrently worked in Wuxi Equity Exchange Co., Ltd.* (無錫產權交易所有限公司) from January 2010 to June 2012 as an executive director and the legal representative. Mr. Yao has served as a director of Surrich International Company Limited (錫洲國際有限公司, “Surrich International”) and Hua Ying Securities since July 2010 and February 2013, respectively.

Mr. Yao graduated from Dalian University of Technology (大連理工大學) (located in Dalian, Liaoning Province, the PRC) with a bachelor’s degree majoring in environmental engineering in July 1994 and then obtained a master’s degree majoring in business administration from Nanjing University (南京大學) (located in Nanjing, Jiangsu Province, the PRC) in June 2004. Mr. Yao obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in July 2012, and also passed the 25th qualification level test of the senior management of securities institutions organized by the SAC in October 2012.

Mr. Lei Jianhui (雷建輝), aged 47, has been an executive Director since June 2008. Mr. Lei has approximately 21 years experience in the financial industry. Mr. Lei joined our Group in July 2001 and served as an executive Vice President of our Company in charge of the corporate management from July 2001 to February 2004. Before joining our Group, Mr. Lei worked in Guolian Trust as a department manager in charge of securities analysis from October 1994 to May 1999, and subsequently served as the secretary to the board of directors of Guolian Group from May 1999 to July 2001. He then worked in Zhonghai Fund as a general manager and a director from March 2004 to July 2007 and from March 2004 to May 2008, respectively. Afterwards, Mr. Lei rejoined our Company and has served as an executive Director and the President since June 2008 and May 2013, respectively. Concurrently, he has also been assuming the position of the chairman of the board of directors of Hua Ying Securities and a director of Guolian Capital since their respective dates of establishment.

Mr. Lei graduated from Sichuan University (四川大學) (formerly known as Chengdu University of Science and Technology (成都科技大學)) (located in Chengdu, Sichuan Province, the PRC) with a bachelor’s degree in engineering majoring in chemical machinery in July 1989 and then obtained a master’s degree in engineering majoring in chemical process machinery from Zhejiang University (浙江大學) (located in Hangzhou, Zhejiang Province, the PRC) in March 1992 as well as a master’s degree majoring in business administration from China Europe International Business School (中歐國際商學院) (located in Shanghai, the PRC) in April 2004. Mr. Lei obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in April 2004, and also passed the 10th qualification level test of the senior management of securities institutions organized by the SAC in April 2007.

Mr. Hua Weirong (華偉榮), aged 50, has been a non-executive Director since May 2008. Mr. Hua has approximately 29 years experience in the financial industry. Mr. Hua joined our Company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

in January 2002 and served as a Director and the general manager of our Company in charge of securities operation and management from January 2002 to December 2004. Before joining our Group, he served in Wuxi Finance Bureau (無錫市財政局) as a clerk of the department of budget management and the department of the comprehensive planning and the deputy section chief of the department of comprehensive planning in charge of the extra-budgetary funds and national debts work from July 1986 to December 1991. He then worked in Guolian Trust as a department manager, an assistant general manager and a deputy general manager in charge of capital loans and settlement, accounting settlement, national debt trading and corporate operation from January 1992 to December 2001. He served as a director of Guolian Group from November 2001 to December 2004, the chairman of the board of directors of Zhonghai Fund from March 2004 to March 2007, the chairman of the board of directors of Guolian Trust from January 2005 to June 2012 and a director of China Asset Management Co., Ltd.* (華夏基金管理有限公司) from May 2012 to September 2013. Mr. Hua has also served as a director of Wuxi Guolian Venture Capital Co., Ltd.* (無錫國聯創業投資有限公司) from September 2008 to January 2015 and the chairman of the board of directors since January 2015, as well as a director of Jiangsu Asset Management Co., Ltd.* (江蘇資產管理有限公司) from May 2013 to March 2014 and the chairman of the board of directors since March 2014. Mr. Hua has also served as a vice president of Guolian Group in charge of the management of financial business since November 2004. Besides, he has served as a director of Wuxi Baolian Investment Co., Ltd.* (無錫市寶聯投資有限公司), Wuxi Delian Investment Co., Ltd.* (無錫市德聯投資有限公司) and Wuxi Liantai Venture Capital Co., Ltd.* (無錫聯泰創業投資有限公司) since August 2006, June 2009 and June 2009, respectively. He has also served as the president of Guolian Financial Investment since June 2012.

Mr. Hua graduated from Suzhou University (蘇州大學) (located in Suzhou, Jiangsu Province, the PRC) with a bachelor's degree in economics majoring in finance in July 1986 and then obtained an executive master degree of business administration from Cheung Kong Graduate School of Business (長江商學院) (located in Beijing, the PRC) in October 2009. Mr. Hua qualified as a senior accountant by Human Resource Bureau of Jiangsu Province in November 2004.

Mr. Jiang Zhijian (蔣志堅), aged 47, has been a non-executive Director since May 2008. Mr. Jiang had approximately 26 years experience in economic management and corporate governance. Before joining our Company, he successively served in Wuxi Huaguang Boiler Co., Ltd.* (無錫華光鍋爐股份有限公司, "Huaguang Boiler") (formerly known as Wuxi Boiler Plant* (無錫鍋爐廠)) (listed on the Shanghai Stock Exchange, stock code: 600475) as the head of workshop of the department of planned dispatching, deputy director, the party secretary and the general manager from July 1989 to December 2004. He also worked in Guolian Environmental (formerly known as Wuxi Mercury Group Co., Ltd.* (無錫水星集團有限公司) as the party secretary and the general manager from December 2000 to December 2003 and from January 2005 to December 2013. He served as the president of Guolian Industrial from March 2009 to December 2013 and has served as a vice president of Guolian Group and the chairman of the board of directors of Guolian Environmental since December 2004 and January 2005, respectively. Mr. Jiang has concurrently acted as a director of Huaguang Boiler, Jiangyin Thermoelectricity Co., Ltd.* (江陰熱電有限公司), Guolian Industrial, Wuxi Zhike Sensor Network Technology Co., Ltd.* (無錫智科傳感網技術股份有限公司), Wuxi Fengsheng Technology Co., Ltd.* (無錫豐晟科技有限公司) and Zhongshe Guolian Wuxi New Energy Development Co., Ltd.* (中設國聯無錫新能源發展有限公司) since December 2000, January 2008, March 2009, January 2010, May 2011 and October 2014, respectively.

Mr. Jiang graduated from Nanjing University of Science and Technology (南京理工大學) (formerly known as East China College of Engineering (華東工學院)) (located in Nanjing, Jiangsu

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Province, the PRC) with a bachelor's degree in engineering majoring in computer software in July 1989. Mr. Jiang was qualified as a senior engineer by Human Resource Bureau of Jiangsu Province in November 2004.

Mr. Liu Hailin (劉海林), aged 37, has been a non-executive Director since May 2008. Mr. Liu has approximately 15 years experience in corporate management. Before joining our Group, he started his career and consecutively served in Jiangsu Xinfang Industrial Co., Ltd* (江蘇新紡實業股份有限公司, "Jiangsu Xinfang") as a technician, the head of workshop and a deputy general manager from August 2000 to July 2006. Mr. Liu has concurrently served as the assistant chairman of the board of directors and the deputy general manager of Jiangsu Xinfang since August 2006.

Mr. Liu graduated from Jiangnan University (江南大學) (formerly known as Wuxi University of Light Industry (無錫輕工大學)) (located in Wuxi, Jiangsu Province, the PRC) with a college degree (專科學歷) majoring in mechatronics in July 2000 and then obtained a bachelor's degree of management majoring in accounting from Jiangnan University in January 2008.

Mr. Liu Gaoyuan (柳高遠), aged 50, has been a non-executive Director since June 2014. Mr. Liu has approximately 21 years experience in corporate management. Before joining our Company, he consecutively served in Wuxi Municipal Postal Office* (無錫市郵電局) as a sorting worker, a quality inspector and an employee monitor from June 1983 to February 1994 and was successively promoted to the deputy director of the mail center and the postal hub, director of the mail center and the section chief of the confidential communications department, director of the service department, inspection room and the service center for key customers and the deputy director of Wuxi Municipal Postal Office* from February 1994 to February 2014. During his tenure in Wuxi Municipal Postal Office*, he also served as the chairman of the trade union from March 2008 to February 2014 and as the secretary of the discipline inspection committee from November 2010 to February 2014. He has concurrently served as the chairman of the board of directors of Wuxi Jinhong Telecommunications Group Co., Ltd.* (無錫金鴻通信集團有限公司) and the secretary of the disciplinary inspection committee in Wuxi Branch of Jiangsu Postal Office* (江蘇省郵政公司無錫分公司) since December 2012 and February 2014, respectively.

Mr. Liu graduated from Jiangsu Open University (江蘇開放大學) (formerly known as Jiangsu Radio & Television University (江蘇廣播電視大學)) (located in Nanjing, Jiangsu Province, the PRC) with a college degree (專科學歷) majoring in economic management in July 1989. Mr. Liu passed the nationwide accreditation test for professional and technical positions qualification of economists (全國經濟師專業技術職務任職資格考試) organized by the Ministry of Personnel in September 2004.

Mr. Wang Wei (王巍), aged 56, has been an independent non-executive Director since March 2015. Before joining our Company, Mr. Wang has served as the chairman of China Mergers & Acquisitions Association (中國併購公會) since September 2004. Mr. Wang also served as an independent director of China Sports Industry Group Co., Ltd. (中體產業集團股份有限公司) (listed on the Shanghai Stock Exchange, stock code: 600158) from September 2005 to April 2012 and as an independent director of China Everbright Bank Company Limited (中國光大銀行股份有限公司) (listed on the Stock Exchange, stock code: 6818; listed on the Shanghai Stock Exchange, stock code: 601818) from May 2008 to January 2014. Mr. Wang is concurrently serving as an independent non-executive Director of Credit China Holdings Limited (中國信貸控股有限公司) (listed on the Stock Exchange, stock code: 8207), an independent director of Shanghai Chengtong Holding Co., Ltd. (上海城投控股股份有限公司) (listed on the Shanghai Stock Exchange, stock code: 600649) and an

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independent director of Lifan Industry (Group) Co., Ltd.* (力帆實業(集團)股份有限公司) (listed on the Shanghai Stock Exchange, stock code: 601777).

Mr. Wang graduated from the Financial Research Institute of the PBOC (中國人民銀行金融研究所) (located in Beijing, the PRC) in July 1985 with a master's degree in economics. He also obtained a Ph.D. in economics from the Graduate School of Arts and Sciences of Fordham University (located in New York, the US) in May 1992.

Ms. Chen Qingyuan (陳清元), aged 38, has been an independent executive Director since October 2014. Ms. Chen is experienced in finance and accounting industry. She served in Hunan Changde Local Taxation Bureau (湖南省常德市地方稅務局) as an accountant from July 1996 to August 2004 and in Hunan Yuancheng Certified Public Accountants* (湖南遠誠聯合會計師事務所) as an auditing manager from September 2004 to July 2006. She also served as a partner of Hunan Branch of Ascenda Certified Public Accountants* (天健正信會計師事務所) from April 2010 to June 2013. Ms. Chen has concurrently served as the chief financial officer of Guangcai International Investment Group Co., Ltd.* (光彩國際投資集團有限公司) since July 2013.

Ms. Chen graduated from Hunan Normal University (湖南師範大學) (located in Changsha, Hunan Province, the PRC) with a bachelor's degree in law in January 2006 and then obtained a master's degree of business administration from Xiangtan University (湘潭大學) (located in Xiangtan, Hunan Province, the PRC) in December 2009. Ms. Chen was qualified as a Chinese Certified Public Accountant (中國註冊會計師) granted by the Chinese Institute of Certified Public Accountants* (中國註冊會計師協會) in April 2007.

Mr. Fan, Yan Hok Philip (范仁鶴), aged 65, has been an independent non-executive Director since March 2015. Mr. Fan concurrently serves as an independent non-executive director of China Everbright International Limited (中國光大國際有限公司, "China Everbright International") (listed on the Stock Exchange, stock code: 257), Hysan Development Company Limited (希慎興業有限公司) (listed on the Stock Exchange, stock code: 14), China Aircraft Leasing Group Holdings Limited (中國飛機租賃集團控股有限公司) (listed on the Stock Exchange, stock code: 1848), First Pacific Company Limited (第一太平有限公司) (listed on the Stock Exchange, stock code: 142) and as an independent director of Goodman Group (listed on the Australian Stock Exchange, stock code: GMG). From March 1, 2010 to December 1, 2014, he served as an independent director of HKC (Holdings) Limited (香港建設(控股)有限公司) (listed on the Stock Exchange, stock code: 190). In addition, he served as an independent director of Zhuhai Zhongfu Enterprise Co., Ltd. (珠海中富實業股份有限公司) (listed on the Shenzhen Stock Exchange, stock code: 000659) from May 2010 to June 2013 and Suntech Power Holdings Co., Ltd. (尚德電力控股有限公司) (listed on the New York Stock Exchange, stock code: STP) from March 2013 to December 2013. He also served as an executive director and the general manager of China Everbright International from October 1997 to January 2010, responsible for its operation.

Mr. Fan graduated from Stanford University (located in California, the US) with a bachelor's degree of science majoring in industrial engineering in June 1973 and then obtained a master's degree of science majoring in operations research from Stanford University (located in California, the US) in September 1973 and a master's degree in management from Massachusetts Institute of Technology (located in Massachusetts, the US) in May 1976.

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SUPERVISORY COMMITTEE

The Supervisory Committee comprises five members. The term of service for each Supervisor is three years, and Supervisors are eligible for re-election. The responsibilities of the Supervisory Committee include but are not limited to:

- reviewing the financial situation and examining the financial information of our Company;
- supervising the conducts of the Directors and senior management in their discharge of duties, advising on the dismissal of any Director and senior management and demanding rectification from the Directors and senior management where their conducts are detrimental to the interests of our Company;
- proposing to convene an extraordinary general meeting and convening and presiding over the general meeting when necessary;
- submitting proposals to the general meetings;
- attending Board meetings and making enquiries and recommendations on the Board resolutions; and
- exercising other powers as authorized by the Articles of Association.

Supervisors

Ms. Yin Zhuowei (殷卓偉), aged 52, has been an employee representative Supervisor and the chairlady of Supervisory Committee since February 2007. Ms. Yin joined our Group in January 1993, and served as a Vice President of our Company from January 1993 to December 2006 in charge of economic business. She also acted as the chairlady of the labor union and the deputy party secretary of our Company from January 2007 to January 2015 in charge of staff and party affairs, respectively. She has also been a supervisor of Hua Ying Securities since its establishment.

Ms. Yin graduated from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Economics (前稱中南財經大學)) (located in Wuhan, Hubei Province, the PRC) with a college degree majoring in finance in July 1987 and then obtained a bachelor's degree majoring in economic management from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) (located in Beijing, the PRC) in December 2002. Ms. Yin obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in May 2004 and also passed the sixth qualification level test of the senior management of securities institutions organized by the SAC in May 2006.

Mr. Yang Xiaojun (楊小軍), aged 42, has been a Shareholder representative Supervisor since April 2013. Before joining our Company, Mr. Yang worked in Wuxi New Area Finance Bureau (無錫市新區財政局) as a clerk and an associate director from July 2000 to February 2005 and subsequently served as a deputy general manager of Wuxi New District City Investment Development Co., Ltd.* (無錫市新區城市投資發展有限公司) from February 2005 to February 2006. From March 2007 to March 2011, Mr. Yang served as a director of Wuxi New District Tech-Park Finance Bureau (無錫新區太湖國際科技園財政局) and the chairman of the board of directors and the general manager of Wuxi Tech-Park Investment Development Co., Ltd.* (無錫太湖國際科技園投資開發有限公司). Mr. Yang has concurrently served as the president of Wuxi New District Development Group Co., Ltd.* (無錫市新區發展集團有限公司) since March 2011.

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Mr. Yang graduated from Nanchang University (南昌大學) (located in Nanchang, Jiangxi Province, the PRC) with a bachelor's degree majoring in industrial machinery and equipment in July 1994 and obtained a master's degree in economics majoring in finance from Jiangxi University of Finance and Economics (江西財經大學) (located in Nanchang, Jiangxi Province, the PRC) in June 2000.

Mr. Jin Guoxiang (金國祥), aged 54, has been a Shareholder representative Supervisor since May 2008. Before joining our Company, Mr. Jin served as the assistant general manager of Wuxi Tianyuan Industrial Co., Ltd.* (無錫天元實業有限公司, "Wuxi Tianyuan") from September 1996 to June 1999. He also served as the head of the investment management department and the head of the comprehensive management department of Guolian Textile from June 2003 to October 2005 and from November 2005 to November 2014, respectively. Since December 2014, he has served as the assistant general manager of Guolian Textile. Mr. Jin has concurrently acted as the chairman of the board of directors of Wuxi Tianyuan and Wuxi Qingfa Textile Co., Ltd.* (無錫慶發紡織有限公司) since August 2012 and September 2014, respectively.

Mr. Jin graduated from Donghua University (東華大學) (formerly known as East China College of Textile (華東紡織工學院)) (located in Shanghai, the PRC) with a bachelor's degree in engineering majoring in textile engineering in July 1982. He also qualified as a senior engineer by Wuxi Personnel Bureau in November 1994.

Mr. Zhou Weixing (周衛星), aged 52, has been a Shareholder representative Supervisor since August 2013. Before joining our Company, Mr. Zhou successively served as the deputy director, director and the securities representative of the securities department in Wuxi Weifu High-technology Co., Ltd.* (無錫威孚高科技集團股份有限公司) (Listed on the Shenzhen Stock Exchange, stock code: 000581) since December 1993, and he currently serves as the secretary to the board of directors and the director of the board office of such company.

Mr. Zhou graduated from Jilin University (吉林大學) (located in Changchun, Jilin Province, the PRC) with a bachelor's degree in economics majoring in national economic management in July 1985.

Mr. Shan Xudong (單旭東), aged 53, has been an employee representative Supervisor since June 2008. Mr. Shan joined our Company from the date of its establishment, and worked in the Financial and Accounting Department of our Company in charge of finance management of securities of our securities branches. Since August 2001, Mr. Shan has worked in the Audit Department of our Company in charge of daily inspection of our securities branches and the related business departments of our Company as well as the audit work of resignation of senior management of our Company.

Mr. Shan graduated from Jiangsu Open University (江蘇開放大學) (formerly known as Jiangsu Radio & Television University (江蘇廣播電視大學)) (located in Nanjing, Jiangsu Province, the PRC) with a college degree (專科學歷) majoring in industrial corporate operation and management in December 1986. He obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in August 2004.

SENIOR MANAGEMENT

Mr. Jiang Zhiqiang (江志強), aged 45, has been a Vice President of our Company since September 2011 and is in charge of Brokerage Business Management Headquarter, Credit Transaction Department, Institutional Business Management Headquarters and branch offices of our Company

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since March 2015. He joined our Company in October 1993 and served successively as the manager of the securities investment department, the general manager of the securities branches, the general manager of wealth management center, the general manager of the asset management department and the assistant president of our Company from October 1993 to May 2012.

Mr. Jiang graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) (located in Nanjing, Jiangsu Province, the PRC) with a bachelor's degree in engineering majoring in instrument and testing system in July 1993 and obtained a master's degree of business administration from Southeast University (東南大學) (located in Nanjing, Jiangsu Province, the PRC) in April 2005. Mr. Jiang obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in August 2004. He also passed the 22nd qualification level test of the senior management of securities institutions organized by the SAC in May 2011.

Mr. Peng Yanbao (彭焰寶), aged 48, has been a Vice President of our Company since August 2009 and is in charge of Asset Management Department, Financial and Accounting Department, Depository Center and Operation Management Center since March 2015. He joined our Company in April 1994 and successively served as a floor trader, an investment manager and the general manager of the securities investment department from April 1994 to December 1999 and from January 2009 to October 2009, respectively. Before joining our Company, Mr. Peng worked in Guolian Investment Management as an investment manager from January 2000 to May 2000. He then subsequently served as the manager of the investment department in Surrich International from May 2000 to July 2003 and successively served as the chief investment officer, the general manager of the risk management department and the chief risk officer in Zhonghai Fund from March 2004 to December 2008, and has been a director of Zhonghai Fund since May 2008. Mr. Peng has also been a director of Hua Ying Securities since its establishment.

Mr. Peng graduated from Tsinghua University (清華大學) (located in Beijing, the PRC) with a bachelor's degree of engineering majoring in internal combustion engine in July 1990. Mr. Peng obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in May 2004. He also passed the 17th qualification level test of the senior management of securities institutions organized by the SAC in April 2009.

Mr. Li Zhengquan (李正全), aged 38, has been a Vice President of our Company in charge of Central Office, OTC Market Department and Research Department since April 2014. He joined our Group in July 2011 and served as the assistant president of our Company from July 2011 to December 2012. Before joining our Company, Mr. Li served as a vice president of Guolian Group from August 2005 to December 2006. Mr. Li also worked as the assistant director of the research center of Wuxi Municipal Government (無錫市委研究所) from December 2006 to June 2011 and the deputy general manager of Guolian Trust from January 2013 to December 2013. He has also served as the chairman of the Board of Guolian Capital since May 2012. In addition, Mr. Li has been a member of the Professional Committee of Direct Investment Industry of the SAC (中國證券業協會直接投資業務專業委員會) since July 2012.

Mr. Li obtained a doctor's degree in economics majoring in political economics from Peking University (北京大學) (located in Beijing, the PRC) in July 2005. Mr. Li obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in September 2011. He also passed the 23rd qualification level test of the senior management of securities institutions organized by the SAC in November 2011.

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Mr. Xu Faliang (徐法良), aged 51, has been the Chief Compliance Officer and the general manager of Audit Department of our Company since January 2007. He joined our Company in March 1993 and served as the financial manager, the deputy general manager and the general manager of the securities branches from March 1993 to December 2005, and was subsequently promoted to act as the general manager of Audit Department of our Company from January 2006 to December 2006. He has also been the chief compliance officer of Hua Ying Securities from the date of its establishment to February 2012 and since September 2013. He also served as a supervisor of Guolian Futures from April 2007 to August 2009, and has been the chairman of its supervisory committee since August 2009.

Mr. Xu obtained a bachelor's degree in finance from Central Radio & Television University (中央廣播電視大學) (located in Beijing, the PRC) in October 2005. Mr. Xu obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in May 2004. He also passed the 5th qualification level test of the senior management of securities institutions organized by the SAC in March 2006.

Ms. Chen Zhiying (陳志穎), aged 40, has been the Chief Financial Officer and Chief Risk Officer since March 4, 2015. She joined our Company in January 2005. Before joining our Company, Ms. Chen served as a chief accountant of Guolian Group from July 1998 to December 2004. She then successively served as the general manager of Financial and Accounting Department of our Company from January 2005 to April 2010. She also served as the head of the finance department of Guolian Futures from April 2010 to December 2014.

Ms. Chen graduated from Nanjing University of Science and Technology (南京理工大學) (located in Nanjing, Jiangsu Province, the PRC) with a bachelor's degree in economics majoring in accounting in July 1998 and then obtained a master's degree of business administration from Southeast University (東南大學) (located in Nanjing, Jiangsu Province, the PRC) in June 2011. Ms. Chen obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in July 2005. She also passed the qualification level test of the senior management of securities institutions organized by the SAC in October 2014.

Save as disclosed in this section, no Directors, Supervisors or senior management held any directorship positions in any other listed companies whose securities were listed on any stock exchange in Hong Kong or overseas within the three years immediately preceding the date of this prospectus. There is no information in respect of the relationship between our Directors, Supervisors or senior management and other Directors, Supervisors and senior management that are required to be disclosed pursuant to Rule 13.51(2) of or paragraph 41(3) of Appendix 1A to the Listing Rules.

JOINT COMPANY SECRETARIES

Ms. Lin Fanyu (林凡鈺), aged 30, has been appointed as our joint company secretary since March 2015. Ms. Lin has approximately 5 years' experience in accounting and auditing. She joined our Group in September 2014. She served as the financial manager of Guolian Capital from September 2014 to January 2015 in charge of the financial management and started to hold position in the Board office of our Company since January 2015. Before joining our Group, she served as a senior accountant in Bulat & Poustie Chartered Accountants from March 2008 to May 2011 in charge of bookkeeping, accounting, auditing and tax affairs and also served as a senior accountant in ChimSeto Chartered Accountants from September 2011 to January 2012 in charge of auditing, review and preparation work in aspects of finance and taxation.

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Ms. Lin graduated from the University of Manitoba (located in Winnipeg, Manitoba, Canada), and obtained a bachelor's degree majoring in accounting and marketing in February 2008. She has obtained Canadian Chartered Professional Accountant qualification from the Certified General Accountants Association of Canada in February 2012 and Certified Public Accountant qualification from Hong Kong Institute of Certified Public Accountants in March 2015. She also obtained the PRC Practicing Certificate of Securities Industry (中國證券業執業證書) granted by the SAC in August 2014.

Ms. Leung Wing Han Sharon (梁穎嫻) has been appointed as our joint company secretary since March 2015. Ms. Leung has been a vice president of SW Corporate Services Group Limited (信永方圓企業服務集團有限公司) and has more than 10 years' experience in finance, accounting and company secretary. Ms. Leung graduated from the Hong Kong University of Science and Technology (located in Hong Kong, the PRC) with a bachelor's degree of business administration in accounting. She also obtained a bachelor's degree of laws from the Manchester Metropolitan University (located in Manchester, the United Kingdom) and a master's degree of laws in international corporate and financial law from the University of Wolverhampton (Wolverhampton, the United Kingdom). Ms. Leung has also been a fellow member of the Hong Kong Institute of Chartered Secretaries, a fellow member of the Institute of Chartered Secretaries and Administrators, a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEES

The Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles of Association and the Listing Rules, we have established our Strategy Committee, Remuneration and Nomination Committee, Audit Committee and Risk Control Committee.

Strategy Committee

We have established the Strategy Committee with written terms of reference on December 19, 2014. The primary responsibilities of our Strategy Committee include but not limited to:

- studying and reviewing the strategic development plans, major investment financing programs, major capital operation and assets management projects, annual operation plans, strategic capital allocation plans and major constitutional restructuring and organizational structure plans of our Company and making recommendations to the Board;
- carrying out information exchange and research within the industry, understanding the development trend of macro economy and securities industry and preparing specific strategic reports;
- evaluating the balanced development of various business lines and making recommendations to the Board; and
- studying other important matters affecting our Company's development and making recommendations to the Board.

The Strategy Committee comprises two executive Directors, being Mr. Yao Zhiyong and Mr. Lei Jianhui, two non-executive Directors, being Mr. Hua Weirong and Mr. Jiang Zhijian, and one independent non-executive Director, being Mr. Fan, Yan Hok Philip. Mr. Yao Zhiyong currently serves as the chairman of the Strategy Committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration and Nomination Committee

We have established the Remuneration and Nomination Committee and adopted an updated terms of reference on December 19, 2014 in compliance with Rule 3.25 of the Listing Rules and paragraph A5 and B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The responsibilities of our Remuneration and Nomination Committee include but not limited to:

- making recommendations to the Board on our Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual executive and non-executive Directors and senior management;
- considering salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in our Group;
- reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of office or appointment and the compensation agreements relating to dismissal or removal of Directors for misconducts;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- reviewing and providing recommendation to the Shareholders of our Company on any service agreement to be entered into between any members of our Group and its Director or proposed Director;
- reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement our Company's corporate strategy;
- identifying individuals suitably qualified to act as the Board members and selection or making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors of our Company;
- making recommendations to the Board on the appointment or re-appointment of Directors of our Company and succession planning for Directors of our Company;
- attending annual general meetings of our Company at the invitation of the Chairman and being available to answer questions at such annual general Meetings; and
- submitting proposals to the Board pursuant to the provisions of the Articles of Association of our Company.

The Remuneration and Nomination Committee comprises one non-executive Director, being Mr. Hua Weirong and two independent non-executive Directors, being Mr. Fan, Yan Hok Philip and Ms. Chen Qingyuan. Mr. Fan, Yan Hok Philip currently serves as the chairman of the Remuneration and Nomination Committee.

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Audit Committee

We have established our Audit Committee and adopted an updated terms of reference on December 19, 2014 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the 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:

- supervising the financial report and making recommendations to the Board on the effectiveness of the internal controls of our Group and the adequacy of the external and internal audits;
- assuring that appropriate accounting principles and reporting practices are followed;
- making recommendations to the Board on the appointment, re-appointment and removal of external auditors, and approving the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- monitoring integrity of our Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports and reviewing the significant opinions in respect of financial reporting set out in the financial statements, annual reports, interim reports and quarterly reports;
- reviewing the statements in respect of audit and supervision made to external auditors, or made by internal auditors and to the Shareholders of our Company;
- reviewing and monitoring the effectiveness of our Company's financial controls, internal control and risk management systems and the financial and accounting policies and practices;
- looking into major investigation findings on internal control matters as delegated by the Board and considering management's response to these findings;
- acting as the communication channel among other directors, the external auditors and internal auditors;
- attending annual general meetings of our Company and being available to answer questions at such annual general meetings; and
- considering other issues as requested by the Board.

The Audit Committee comprises one non-executive Director, being Mr. Jiang Zhijian and two independent non-executive Directors, being Ms. Chen Qingyuan and Mr. Wang Wei. Ms. Chen Qingyuan currently serves as the chairlady of the Audit Committee.

Risk Control Committee

We established the Risk Control Committee and adopted an updated terms of reference on December 19, 2014. The responsibilities of our Risk Control Committee include but not limited to:

- reviewing and making recommendations on the overall objective and basic policies of the and risk and compliance management system of our Company;

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- reviewing and making recommendations on the organizational structure and the respective responsibilities of the risk and compliance management system of our Company;
- assessing and making recommendations to the Board on the risks and their respective solutions of the material decisions to be reviewed by the Board;
- reviewing and making recommendations to the Board on the periodical compliance reports and risk assessment reports to be reviewed by the Board;
- reviewing and deciding on individual project as specified in the terms of reference of the Risk Control Committee; and
- submitting proposals and reports to the Board for decision making.

The Risk Control Committee comprises one executive Directors, being Mr. Yao Zhiyong, three non-executive Directors, being Mr. Hua Weirong, Mr. Jiang Zhijian and Mr. Liu Hailin and one independent non-executive Director, being Ms. Chen Qingyuan. Mr. Yao Zhiyong currently serves as the chairman 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.

For the three years ended December 31, 2012, 2013 and 2014, the aggregate amount of emolument paid by our Company to our Directors were approximately RMB1.60 million, RMB1.83 million and RMB2.26 million, respectively. For the three years ended December 31, 2012, 2013 and 2014, the aggregate amount of emolument paid by our Company to our Supervisors were approximately RMB0.63 million, RMB0.72 million and RMB0.87 million, respectively. 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, 2015, will be approximately RMB2.58 million and RMB0.88 million, respectively.

For the three years ended December 31, 2012, 2013 and 2014, the aggregate amount of emolument paid by our Company to the five highest paid individuals were approximately RMB18.39 million, RMB11.66 million and RMB21.31 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 our Company or any subsidiary during the Track Record Period.

During the Track Record Period, none of our Directors waived or agreed to waive 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have appointed BOCOM International (Asia) Limited as our compliance advisor pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the 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 Listing Rules, is contemplated, including share issues;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that disclosed 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 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 Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, BOCOM International (Asia) Limited will, in a timely manner, inform us of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. BOCOM International (Asia) 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 publish the annual report of the first full financial year commencing after the Listing pursuant to the Rule 13.46 of the Listing Rules.

SHARE CAPITAL

As of the date of this prospectus, the registered share capital of our Company is RMB1,500,000,000, divided into 1,500,000,000 Domestic Shares with a nominal value of RMB1.00 each.

The share capital structure of our Company immediately after completion of 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> |
|---|-----------------|-------------------------|---|
| Guolian Group | Domestic Shares | 543,901,329 | 28.590% |
| Guolian Trust | Domestic Shares | 390,137,552 | 20.508% |
| Wuxi Electric | Domestic Shares | 266,899,445 | 14.030% |
| Guolian Textile | Domestic Shares | 72,784,141 | 3.826% |
| Guolian Environmental | Domestic Shares | 29,113,656 | 1.530% |
| Other Shareholders ⁽¹⁾ | Domestic Shares | 156,923,877 | 8.249% |
| H Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering | H Shares | 40,240,000 | 2.115% |
| H Shares to be issued under the Global Offering | H Shares | 402,400,000 | 21.152% |
| Total⁽²⁾ | | <u>1,902,400,000</u> | <u>100%</u> |

Notes:

- (1) Other Shareholders comprise a total of seven Shareholders, namely, Wuxi Minsheng Investment Co., Ltd.* (無錫民生投資有限公司), Wuxi Jinhong Telecommunications Group Co., Ltd.* (無錫金鴻通信集團有限公司), Jiangsu Xinfang Industrial Co., Ltd.* (江蘇新紡實業股份有限公司), Wuxi Weifu High-tech Co., Ltd.* (無錫威孚高科技集團股份有限公司), Wuxi New District Development Group Co., Ltd.* (無錫市新區發展集團有限公司, “Wuxi New District Development”), Wuxi Xinye Construction Development Co., Ltd.* (無錫市新業建設發展公司, “Wuxi Xinye”) and Yixing Assets Management Company* (宜興市資產經營公司, “Yixing Assets”).
- (2) Immediately after completion of the Global Offering, our total share capital shall comprise 1,459,760,000 Domestic Shares and 442,640,000 H Shares (including 40,240,000 H Shares to be converted from Domestic Shares and offered by the Selling Shareholders for the benefit of the NSSF), which amount to approximately 76.733% and 23.267% of our total share capital, respectively.

OUR SHARES AND RANKING

Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars (except for the H Shares which are the eligible shares under the Shanghai-Hong Kong Stock Connect and can be traded in RMB). Domestic Shares, on the other hand, may only be subscribed for in RMB. Apart from certain PRC qualified domestic institutional investors, as well as certain PRC qualified investors under the Shanghai-Hong Kong Stock Connect, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, generally can be subscribed for by and transferred between legal or natural persons of the PRC. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

All of the existing Domestic Shares are held by 12 existing Shareholders. Shares which are in issue before the Global Offering may not be transferred within a year from the date of Listing. Upon the approval of the relevant regulatory authorities of the PRC and Hong Kong, Domestic Shares may be converted into H Shares.

H Shares and Domestic Shares are regarded as different classes of Shares under the Articles of Association. 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,

SHARE CAPITAL

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, Domestic Shares and H Shares shall rank *pari passu* with each other in all aspects and, in particular, shall 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 are in issue before the Global Offering may not be transferred within one year from the Listing Date. However, the Sale Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering in accordance with relevant PRC laws regarding the conversion/reduction of state-owned shares are not subject to such statutory restrictions (see “—Transfer and Sale of State-owned Shares” below).

TRANSFER AND SALE OF STATE-OWNED SHARES

In accordance with the Provisional Measures on Reducing State-owned Shares to Raise Social Security Fund (《減持國有股籌集社會保障資金管理暫行辦法》) issued by the State Council, our eight state-owned Shareholders, namely Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental, Wuxi New District Development, Wuxi Xinye and Yixing Assets, are required to transfer to the NSSF, in aggregate, such number of Domestic Shares to be converted to H Shares equivalent to 10.0% of the number of the Offer Shares to be issued by us under the Global Offering (being 40,240,000 Shares), or pay the equivalent amount of cash at the Offer Price after deducting the relevant listing expenses under the Global Offering to the NSSF, or a combination of both.

On February 13, 2015, the SASAC approved all our eight state-owned Shareholders to transfer the Sale Shares to the NSSF. The transfer of those Sale Shares was approved by the CSRC on May 26, 2015. Pursuant to a letter issued by the NSSF (Shebaojijinf [2015] No. 45) on March 31, 2015, the NSSF instructed us to (i) arrange for the sale of the Sale Shares, which shall equal to 10% of the number of the Offer Shares to be offered by our Company; and (ii) remit the proceeds from the sale of the Sales Shares (after deducting the SFC transaction levy and the Stock Exchange trading fee) to an account designated by the NSSF. See “Structure of the Global Offering—the Selling Shareholders” of this prospectus. Our Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering.

We have been advised by our PRC legal advisor, Jingtian & Gongcheng, that the conversion of the Domestic Shares into H Share and sale of the same as described above have been approved by the competent PRC authorities and is legal and valid under the relevant PRC laws.

CONVERSION OF OUR SHARES INTO H SHARES

Conversion of Unlisted Shares

Upon completion of the Global Offering, we will have two classes of ordinary Shares, H Shares and Domestic Shares. 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

SHARE CAPITAL

such converted shares, any requisite internal approval processes (other than 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. 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 Stock Exchange.

If any of our unlisted Shares are to be converted and traded as H Shares on the Stock Exchange, such conversion shall be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the 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 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 Stock Exchange and delivery of shares for entry on the H Share register.

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 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.

According to Article 10 and Article 25 of the Rules for Establishment of Foreign-invested Securities Companies (《外資參股證券公司設立規則》) (effective from October 11, 2012) prescribed by the CSRC, the equity interest of a listed PRC-incorporated securities firm held (including direct holding and indirect control) by all foreign investors shall not exceed 25% of its total issued share capital, and the aggregate direct and indirect shareholdings of foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%. In addition, Rule 8.08(1) of the 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, and pursuant to the waiver granted to us by the Stock Exchange, the minimum public float of the Company shall be set at 23.267%. After completion of the Global Offering, in order to fulfill these requirements, we may not be able to issue additional H Shares or other equity or equity-linked securities offshore unless: (i) we maintain the prescribed foreign shareholding percentage through issuing Domestic Shares or through A share offering at the same time when we issue additional H Shares or other equity or equity-linked securities offshore; or (ii) the relevant regulatory requirements relax; or (iii) we are able to obtain a waiver from the regulatory authorities for the strict compliance with the foreign shareholding requirement under the PRC rules.

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 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 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 Stock Exchange in

SHARE CAPITAL

compliance with the 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 Domestic Shares held by it into H Shares, except for the Domestic Shares to be converted and offered by the Selling Shareholders in connection with the Global Offering in accordance with relevant PRC laws regarding the conversion/reduction of state-owned shares.

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.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of our Directors, the following person(s) will, immediately after completion of 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 Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, 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:

| <u>Shareholder</u> | <u>Number of Shares held after the Global Offering</u> | <u>Nature of interest</u> | <u>Approximate percentage of shareholding in the relevant class of Shares immediately after completion of the Global Offering⁽¹⁾</u> | <u>Approximate percentage of shareholding in the total share capital of our Company immediately after completion of the Global Offering⁽²⁾</u> |
|--|--|---|---|---|
| Guolian Group ⁽³⁾⁽⁴⁾⁽⁵⁾ | 1,302,836,123 | Beneficial owner and Interest of controlled corporation | 89.250% | 68.484% |
| | Domestic Shares | | | |
| Guolian Trust ⁽⁴⁾ | 390,137,552 | Beneficial owner | 26.726% | 20.508% |
| | Domestic Shares | | | |
| Guolian Industrial ⁽⁵⁾ | 266,899,445 | Interest of controlled corporation | 18.282% | 14.030% |
| | Domestic Shares | | | |
| Wuxi Electric ⁽⁵⁾ | 266,899,445 | Beneficial owner | 18.282% | 14.030% |
| | Domestic Shares | | | |

Notes:

- (1) The calculation is based on the total number of 1,459,760,000 Domestic Shares (excluding 40,240,000 H Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering) in issue immediately after completion of the Global Offering.
- (2) The calculation is based on the total number of 1,902,400,000 Shares in issue immediately after completion of the Global Offering.
- (3) Immediately after completion of the Global Offering, Guolian Group will directly hold 543,901,329 Domestic Shares. In addition, as each of Guolian Textile and Guolian Environmental is a direct wholly-owned subsidiary of Guolian Group, Guolian Group is deemed to be interested in the 72,784,141 and 29,113,656 Domestic Shares held by Guolian Textile and Guolian Environmental, respectively. Guolian Group is also deemed to be interested in the 390,137,552 and 266,899,445 Domestic Shares held by each of Guolian Trust and Wuxi Electric. For details, please refer to notes (4) and (5) below.
- (4) Guolian Trust is owned as to 65.854% by Guolian Group, 9.756% by Guolian Environmental, 8.130% by Wuxi Electric, 8.130% by Wuxi Communication Industry Group Co., Ltd.* (無錫市交通產業集團有限公司) and 8.130% by Wuxi Commercial Mansion Grand Orient Co., Ltd.* (無錫商業大廈大東方股份有限公司). Each of Guolian Environmental and Wuxi Electric is wholly owned by Guolian Group. Therefore, Guolian Group is deemed to be interested in the 390,137,552 Domestic Shares held by Guolian Trust.
- (5) Wuxi Electric is wholly owned by Guolian Industrial, which is in turn wholly owned by Guolian Group. Therefore, each of Guolian Industrial and Guolian Group is deemed to be interested in the 266,899,445 Domestic Shares held by Wuxi Electric.

Save as disclosed herein, our Directors are not aware of 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 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.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, our Controlling Shareholders, namely, Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial, were together entitled to exercise or control the exercise of 89.500% of the voting power at the general meetings of our Company. Immediately following completion of the Global Offering, Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial will together be entitled to exercise or control the exercise of approximately 68.484% of the voting power at the general meetings of our Company, and therefore, they will continue to be our Controlling Shareholders.

BUSINESS DELINEATION

Principal Business of Our Group

As one of the leading integrated securities firms in Wuxi based on the trading volume of agency sales of securities, our principal business lines include brokerage, investment banking, asset management and investment, credit transactions and proprietary trading. For further details on the principal businesses of our Group, please see the section headed “Business” in this prospectus.

Principal Businesses of Our Controlling Shareholders

Guolian Group is a wholly state-owned limited liability company established in the PRC in December 1997 with a registered capital of RMB8 billion. Wuxi government authorizes the SASAC Wuxi to perform the shareholder’s duties and supervisory duties of Guolian Group. Guolian Group is mainly engaged in management and operation of capital assets, agency investment, investment consultancy and investment service, and it controls or invests in various companies which are engaged in relevant business relating to financial sectors such as securities, trust, banking, futures, asset management, insurance and funds, as well as relevant business relating to industrial sectors such as environmental protection, electric power, textile and logistics. As of the Latest Practicable Date, Guolian Group indirectly controlled 44.550% of the equity interest in Wuxi Huaguang Boiler Co., Ltd.* (無錫華光鍋爐股份有限公司, “Huaguang Boiler”), a company listed on the Shanghai Stock Exchange (stock code: 600475), which is primarily engaged in the development and manufacturing of environmental-friendly facilities. Each of Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial is a subsidiary of Guolian Group. Guolian Trust is mainly engaged in the provision of trust services and direct investment in the PRC. Wuxi Electric is mainly engaged in the planning and operation of municipal public electric system and facilities in Wuxi. Guolian Textile is mainly engaged in the sales of textile products. Guolian Environmental is mainly engaged in the design, construction, operation, and management of environmental-friendly power stations, and the production of relevant equipment. Guolian Industrial mainly serves as an investment holding company and holds the equity interest of companies mainly in industrial sectors.

In the finance sector of Guolian Group, only our Group obtained the necessary qualifications, permits and licenses to carry out the business as a securities company. For details, please see “Regulatory Environment—Industry Entry Requirements—Industry Entry Requirements for Securities Companies” in this prospectus.

We are of the view that, except for asset management and direct investment businesses, the principal businesses of Guolian Group and/or its subsidiaries (other than our Group) do not compete with our principal businesses.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, except for asset management and direct investment businesses, certain of our Controlling Shareholders and their respective subsidiaries also conducted finance-related businesses, which we consider do not compete with our principal businesses:

- Guolian Finance, a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB500 million;
- Guolian Financial Investment Group Co., Ltd.* (國聯金融投資集團有限公司, “Guolian Financial Investment”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB3 billion;
- Wuxi Equity Exchange Co., Ltd.* (無錫產權交易所有限公司, “Wuxi Equity Exchange”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB20 million;
- Wuxi Guolian Equity Exchange Brokerage Co., Ltd.* (無錫市國聯產權交易經紀有限公司, “Guolian Equity Exchange”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB5 million;
- Wuxi Hi-tech Equity Exchange Brokerage Co., Ltd.* (無錫市高新技術產權交易經紀有限公司, “Wuxi Hi-tech Equity Exchange”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB5 million;
- Wuxi Public Resources Trading Service Center Co., Ltd.* (無錫市公共資源交易服務中心有限公司, “Wuxi Public Resources Trading”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB5 million;
- Wuxi Equity Registration and Trusteeship Center Co., Ltd.* (無錫市股權登記託管中心有限公司, “Wuxi Equity Trusteeship Center”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB10 million;
- Wuxi Union Small & Medium Enterprises Guarantee Co., Ltd.* (無錫市聯合中小企業擔保有限責任公司, “Wuxi Guarantee”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB361.71 million;
- Wuxi (Agricultural) Re-guarantee Co., Ltd.* (無錫市(農業)再擔保有限公司, “Wuxi Re-guarantee”), a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB44 million; and
- Guolian Trust, a joint stock company with limited liability established in Jiangsu province of the PRC with a registered capital of RMB1.23 billion.

Guolian Finance is principally engaged in the provision of services in relation to loans and financing, receipt and payment of trading amount, interbank lending, credit verification, bill acceptance, and other related services for inter-group companies, and generally does not provide such services to external parties. As a non-banking financial institution established in accordance with the Measures for the Administration of Finance Companies of Enterprise Group (《企業財務集團公司管理辦法》), Guolian Finance is permitted to provide intra-group loans and other financing services, so that the relevant intra-group enterprises can meet their capital needs for business operation and development. Such services are essentially different from our credit transaction business, which we use the funds we own or raised to provide margin financing and securities lending services

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

and engage in other types of capital-based intermediary businesses, such as securities-backed lending and securities repurchase, to our customers. As the principal businesses of Guolian Finance do not overlap with those of our Company and Guolian Finance has not obtained any qualification, permit or license required for conducting our principal businesses, we believe there is no competition between our principal businesses and those of Guolian Finance.

Guolian Financial Investment is an investment holding company, and it is not engaged in any actual business operations. In addition, since Guolian Financial Investment has not obtained any qualification, permit or license required for conducting our principal businesses, we believe there is no competition between our principal businesses and those of Guolian Financial Investment.

Each of Wuxi Equity Exchange, Guolian Equity Exchange, Wuxi Hi-tech Equity Exchange, Wuxi Public Resources Trading and Wuxi Equity Trusteeship Center is a platform for the listing, registration, entrustment, trading, financing, clearing and transfer of the shares, bonds, asset and related derivatives of private companies, and their respective principal businesses do not include any of our principal businesses. In addition, none of these companies has obtained any qualification, permit or license required for conducting our principal businesses. In light of the foregoing, we believe there is no competition between our principal businesses and those of any of the foregoing companies.

Wuxi Guarantee and Wuxi Re-guarantee are principally engaged in the provision of guarantee/re-guarantee services for certain target companies, and their respective principal businesses do not overlap with our principal businesses. In addition, neither Wuxi Guarantee nor Wuxi Re-guarantee has obtained any qualification, permit or license required for conducting our principal businesses. On that basis, we believe there is no competition between our principal businesses and those of Wuxi Guarantee or Wuxi Re-guarantee.

Pursuant to the Trust Law of the PRC (《中華人民共和國信託法》) and other applicable financial regulations in China, securities companies are not permitted to carry out any trust business. On the other hand, trust companies are not permitted to engage in any securities business (except that trust companies can apply to undertake securities underwriting business if approved by competent authorities). Since the operation of our Company and Guolian Trust are regulated by different regulations and supervised by different regulatory bodies, and Guolian Trust has not obtained any qualification, permit or license required for conducting our principal securities related business. We believe that, except for the direct investment business conducted both by our Group and Guolian Trust as set out below, there is no substantial competition between our principal businesses and those of Guolian Trust.

EXCLUDED ASSET MANAGEMENT BUSINESS

General Information

Guolian Futures is a limited liability company established in Jiangsu province of the PRC with a registered capital of RMB450 million. Based on its audited accounts prepared in accordance with PRC GAAP, for the three years ended December 31, 2014, the revenue of Guolian Futures was RMB211.7 million, RMB182.5 million and RMB162.3 million, respectively, and its net profit was RMB45.5 million, RMB21.6 million and RMB22.2 million, respectively.

Between 2007 and 2013, Guolian Futures was a subsidiary of our Company, which was mainly engaged in futures related business (including provision of commodity futures brokerage, financial

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

futures brokerage and futures investment consultation). In 2013, certain of our securities related business (such as margin financing and securities lending) experienced strong growth, and in order to better focus the capital resources of our Group on such areas, our Company entered into an equity transfer agreement to transfer all its equity interest in Guolian Futures (and consequently all of our futures related business at the relevant time) to Guolian Group in June 2013 in order to improve our Net Capital, meet our then working capital need and focus on the growth of securities related business activities.

Guolian Futures commenced to provide asset management services (the “Excluded Asset Management Business”) in 2014 and such business is an integral part of its futures related business.

As of the Latest Practicable Date, Guolian Group, directly and indirectly through its wholly-owned subsidiary, Wuxi Guolian Material Investment Co., Ltd.* (無錫市國聯物資投資有限公司, “Guolian Material”), owned an aggregate of 56.50% equity interest in Guolian Futures.

Comparison of the Excluded Asset Management Business and our Asset Management Business

Although both Guolian Futures and our Company conduct asset management business, there are significant differences between them in respect of the following aspects:

Applicable Regulations

The Excluded Asset Management Business is mainly regulated by the Pilot Measures for the Asset Management Business of Futures Companies (《期貨公司資產管理業務試點辦法》), while the asset management business conducted by our Company is mainly regulated by the Measures for the Management of Asset Management Business for Customers of Securities Companies (《證券公司客戶資產管理業務管理辦法》), the Detailed Rules for the Implementation of the Targeted Asset Management Business of Securities Companies (《證券公司定向資產管理業務實施細則》) and the Detailed Rules for the Implementation of the Collective Asset Management Business of Securities Companies (《證券公司集合資產管理業務實施細則》).

AUM Products and Services

The products and services of the Excluded Asset Management Business mainly include target asset management scheme for a single investor and collective asset management scheme for certain group of investors. As at December 31, 2014 and May 31, 2015, the total AUM of the Excluded Asset Management Business were RMB40 million and RMB345.5 million, respectively. Investment in futures products accounted for 100% and approximately 29.8% of the AUM under the Excluded Asset Management Business as at December 31, 2014 and May 31, 2015, respectively. Apart from futures products, the investment target of the Excluded Asset Management Business also includes stocks and fixed income products.

Compared with the Excluded Asset Management Business, the business size of our asset management business is substantially larger. Our asset management products and services primarily include (i) collective asset management scheme, which primarily focuses on areas such as stock investments, fixed income investments, hybrid investments, private placement, stock pledge financing, theme investment and cash management; (ii) targeted asset management scheme, the investment target of which generally includes equity investment products, money market instruments, bonds, trust schemes and other financial instruments traded on the PRC financial asset exchanges; and bank wealth

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

management products, as well as other financial instruments permitted by the CSRC; and (iii) specialized asset management scheme, which includes four senior bonds with an “AAA” rating and one subordinated bond with no rating. As our expertise are focused on the investment targets mentioned above and due to the typical risk preference/tolerance of our customers, we do not promote futures products or actively invest in any futures products in our asset management business. In the past, due to specific instructions from customers, our targeted asset management schemes had invested in stock index futures, a type of futures products, in the maximum aggregate amount of RMB1.68 million, which is less than 0.001% of the total AUM of our asset management products which were RMB16,695.3 million and RMB17,789.1 million as at December 31, 2014 and May 31, 2015, respectively, and is therefore, negligible. We do not expect to invest in stock index futures or any futures products in the ordinary course of our asset management business in the future, and therefore, we do not anticipate the competition with Guolian Futures to arise in this regard in the future.

Marketing and Sales Channels

Asset management products of Guolian Futures are mainly marketed and sold through its nationwide branch network.

In contrast, we have formulated different marketing strategies and established various sales channels for our asset management products. Our collective asset management schemes are generally promoted through our nationwide branch network or through third-party agency banks. Our financial advisors analyze our customers’ needs in order to identify suitable candidates for our collective and targeted asset management and specialized asset management products. Certain institutional clients are also referred to us through our investment banking business and securities brokerage business.

Customer Base

To the best knowledge of our Directors, as of December 31, 2014 and May 31, 2015, all customers of the Excluded Asset Management Business were developed from the customers of Guolian Futures’ futures brokerage business or developed by its sales staff during the promotion and marketing of its futures related services.

The customers of our asset management business include customers of our securities brokerage business, customers developed by our financial advisors, other business departments of our Group and our nationwide branch network, and customers recommended by third-party agency banks with which we have had prior business relationships.

In addition, compared with the customers of our asset management business, customers of Guolian Futures generally have a significant higher level of risk tolerance mainly due to the higher risk levels associated with futures products, which are the main investment targets of Guolian Futures’ asset management products.

Financial Performance

For the year ended December 31, 2014, based on the audited accounts of Guolian Futures prepared in accordance with PRC GAAP, it had revenue from the Excluded Asset Management Business of approximately RMB2,000, recorded net loss of approximately RMB0.58 million. In contrast, our asset management business had total revenue and other income of approximately RMB210.2 million and recorded profit before tax of approximately RMB166.7 million for the same year.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Qualification of Traders

The traders of the Excluded Asset Management Business shall have the qualifications for practicing in futures industry, while we require the traders of our asset management business to obtain the qualifications for practicing in securities industry.

In light of the above differences and delineations and considering the current scale of operations of Guolian Futures, our Directors are of the view that competition between the Excluded Asset Management Business and our asset management business is limited.

Measures to Eliminate Potential Competition Upon Listing

Guolian Futures has established internal policies that upon Listing, its asset management products will only focus on futures products. The existing investments of Guolian Futures involving asset management products such as stocks or fixed income products will terminate upon expiration of the term of such asset management products by May 2016, and Guolian Futures expects that no new investment will be made in stocks or fixed income products under its current and future asset management business. On the other hand, consistent with our general historical practice as well as our internal policies, we do not expect to invest in any futures products in the ordinary course of our asset management business in the future. As such, competition between the Excluded Asset Management Business and our asset management business will be substantially eliminated.

We have further entered into the Non-competition Agreement with our Controlling Shareholders on June 15, 2015, pursuant to which Guolian Futures, as one of the Controlled Entities (as defined in the Non-competition Agreement) of the Controlling Shareholders, shall comply with relevant requirements under the Non-competition Agreement. For details, please see “—Non-competition Agreement with our Controlling Shareholders” below.

Moreover, we have entered into an equity interest option agreement with Guolian Group and Guolian Futures, pursuant to which Guolian Group has granted us an option to acquire any or all of the equity interest in Guolian Futures held directly by itself or indirectly by its subsidiaries (including Guolian Material) at a price to be determined based on arm’s length negotiation among the parties by reference to the net asset value of Guolian Futures to be evaluated by a third party appraiser (the “Option for Acquisition”), the exercise of which shall be solely decided by our Independent Non-executive Directors. For this purpose, Guolian Group undertakes to provide or procure its subsidiaries (including Guolian Material) to provide relevant information as required by our Independent Non-executive Directors, including, without limitation, financial results of the Excluded Asset Management Business and Guolian Futures. Our exercise of such option is subject to compliance by us, Guolian Group and Guolian Futures with all applicable laws (particularly those in the PRC regarding disposal of state-owned assets promulgated by the SASAC) as well as the applicable requirements of the Listing Rules.

In light of the above, our Directors are of the view that there are adequate and effective measures to manage the competition between the Excluded Asset Management Business and our asset management business upon Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

EXCLUDED DIRECT INVESTMENT BUSINESS

General Information

Since the 1990s, direct investment has thrived in China and various investment companies have undertaken such business. Guolian Group commenced its direct investment business through its subsidiaries. Since 2007, securities firms are permitted to conduct direct investment business and we commenced such business in November 2010 through Guolian Capital. Please also see “Regulatory Environment—Industry Entry Requirements—Market Entry Requirements for Direct Investment Company” in this prospectus.

Direct investment can generally be classified into two major types, financial investment and strategic investment. Financial investment mainly refers to investment in target companies for capital appreciation through future exit opportunities, or for earning dividends income, while strategic investment generally refers to investment in target companies which can fit into the investor’s own long-term business plans, or for the purpose of vertical expansion (toward the customer or supplier), horizontal expansion (into new geographic markets or product lines), eliminating competition, or strengthening certain of its own weaknesses.

Certain of our Controlling Shareholders and entities in which they hold 10% or more equity interests are engaged in direct investment business, including both strategic investment and financial investment. Meanwhile, our wholly-owned subsidiary, Guolian Capital, conducts direct investment (financial investment only) in private companies that we believe have potentials for capital gains.

Excluded Strategic Investment Companies

As of the Latest Practicable Date, our Controlling Shareholders held 10% or more equity interests in the following companies, the scope of business of which includes business activities relating to direct investment, and which had conducted strategic investment in the past (hereinafter referred to as “Excluded Strategic Investment Companies”):

Excluded Strategic Investment Companies in which the Controlling Shareholders held 50% or more equity interests:

| <u>Name</u> | <u>Nature</u> | <u>Registered capital</u> | <u>Business scope in relation to strategic investment</u> |
|--|--|---------------------------|---|
| Guolian Trust | joint stock company with limited liability | RMB1.23 billion | direct investment |
| Guolian Material | limited liability company | RMB270 million | investment by utilizing self-owned assets |
| Wuxi Xinlian Thermal Co., Ltd.* (無錫新聯熱力有限公司, “Xinlian Thermal”) | limited liability company | RMB100 million | investment in thermal industries by utilizing self-owned assets |
| Guolian Environmental | limited liability company | RMB800 million | investment in environmental-friendly, energy and urban public infrastructure industries |
| Wuxi Guolian Equity Trade Brokerage Co., Ltd.* (無錫市國聯產權交易經紀有限公司, “Guolian Equity Brokerage”) | limited liability company | RMB5 million | provision of consultation services for the state enterprises and public institutions on their |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

| Name | Nature | Registered capital | Business scope in relation to strategic investment |
|--|---------------------------|--------------------|---|
| | | | reformation, merger and acquisition, reorganization and integration |
| Zhongshe Guolian Wuxi New Energy Development Co., Ltd.* (中設國聯無錫新能源發展有限公司, “Guolian New Energy”) | limited liability company | RMB200 million | investment in new energy industry |

Excluded Strategic Investment Companies in which the Controlling Shareholders held 30% or more but less than 50% equity interests:

| Name | Nature | Registered capital | Business scope in relation to strategic investment |
|--|---------------------------|--------------------|--|
| Wuxi No.1 Cotton Investment Co., Ltd.* (無錫一棉投資有限公司, “Wuxi No.1 Cotton”) | limited liability company | US\$60 million | investment in industries which allow foreign investment and the provision of consultation services |

The following table sets out the relevant financial information of the Excluded Strategic Investment Companies during the Track Record Period which were prepared in accordance with applicable accounting standards:

| Name | Revenue for the year ended December 31, | | | Net profits for the year ended December 31, | | |
|-----------------------------------|---|-----------------|-----------------|---|-----------------|-----------------|
| | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions |
| Guolian Trust | 364.3 | 466.4 | 598.0 | 243.9 | 328.8 | 426.5 |
| Guolian Material | 561.6 | 280.6 | 346.0 | 41.0 | 16.9 | (4.4) |
| Xinlian Thermal ⁽¹⁾ | — | — | — | — | — | — |
| Guolian Environmental | 4,734.6 | 4,171.3 | 4,503.3 | 452.9 | 397.7 | 353.6 |
| Guolian Equity Brokerage | 14.8 | 12.8 | 24.4 | 6.4 | 5.0 | 14.5 |
| Guolian New Energy ⁽¹⁾ | — | — | — | — | — | — |
| Wuxi No.1 Cotton | 1,370.1 | 1,232.4 | 1,139.5 | 24.8 | 50.8 | 63.2 |
| Total | <u>7,045.4</u> | <u>6,163.5</u> | <u>6,611.2</u> | <u>769.0</u> | <u>799.2</u> | <u>853.4</u> |

Note:

(1) Xinlian Thermal and Guolian New Energy were established in August 2014 and November 2014, respectively, and neither of them commenced any business operation in the year of 2014. As such, no revenue or profit was recorded during the three years ended December 31, 2014 for either of Xinlian Thermal or Guolian New Energy.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Excluded Financial Investment Entities

As of the Latest Practicable Date, the financial investment entities (the entities which are engaged in or may be engaged in financial investment with its own and/or raised funds for investment returns, hereinafter referred to as “Excluded Financial Investment Entities,” and together with Excluded Strategic Investment Companies, the “Excluded Direct Investment Entities” and their direct investment business, the “Excluded Direct Investment Business”) in which the Controlling Shareholders held 10% or more equity interests included:

Excluded Financial Investment Entities in which the Controlling Shareholders held 50% or more equity interests:

| <u>Name</u> | <u>Nature</u> | <u>Registered capital/ Subscribed capital</u> | <u>Business scope in relation to financial investment</u> |
|--|--|---|--|
| Guolian Trust | joint stock company with limited liability | RMB1.23 billion | direct investment |
| Wuxi Guolian Capital Management Co., Ltd.* (無錫國聯資本管理有限公司, “Guolian Capital Management”) | limited liability company | RMB30 million | venture capital investment and provision of related management and consultation services |
| Wuxi Guolian Venture Capital Co., Ltd.* (無錫國聯創業投資有限公司, “Guolian Venture Capital”) | limited liability company | RMB200 million | venture capital investment, investment in high-tech industries and the provision of related management and consultation services |

Excluded Financial Investment Entities in which our Controlling Shareholders held 30% or more but less than 50% equity interests:

| <u>Name</u> | <u>Nature</u> | <u>Registered capital/ Subscribed capital</u> | <u>Business scope in relation to financial investment</u> |
|--|---------------------------|---|--|
| Everbright Guolian Venture Capital Co., Ltd.* (光大國聯創業投資有限公司, “Everbright Guolian Venture Capital”) | limited liability company | RMB320 million | venture capital investment and the provision of related consultation and management services |
| Wuxi Yihe Guolian Investment Management Company (Limited Partnership)* (無錫怡和國聯投資管理企業(有限合夥), “Yihe Guolian Investment Management”) | limited partnership | RMB3 million | investment management |
| ABCI Guolian Wuxi Investment Management Co., Ltd.* (農銀國聯無錫投資管理有限公司, “ABCI Guolian Investment Management”) | limited liability company | RMB50 million | investment management and external investment by utilizing self-owned capital |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

| Name | Nature | Registered capital/ Subscribed capital | Business scope in relation to financial investment |
|---|--------------------------------------|---|--|
| Wuxi Houze Guolian Investment Management Co., Ltd.* (無錫厚澤國聯投資管理有限公司, “Houze Guolian Investment Management”) | limited liability company | RMB5 million | venture capital investment and the provision of related consultation and management services |
| Wuxi Detong Guolian Investment Management Co., Ltd.* (無錫德同國聯投資管理有限公司, “Detong Guolian Investment Management”) | limited liability company | RMB3 million | venture capital investment and the provision of related consultation and management services |
| Lingxiang Fund ⁽¹⁾ | limited partnership | RMB60 million | venture capital investment and the provision of related consultation services |
| Detong Guolian (Wuxi) Investment Center (Limited Partnership)* (德同國聯(無錫)投資中心(有限合夥), “Detong Guolian Investment Center”) | limited partnership | RMB300 million | venture capital investment and the provision of related consultation and management services |
| Wuxi Shiming Guolian Venture Capital Enterprise* (無錫世銘國聯創業投資企業, “Shiming Guolian Venture Capital”) | foreign-invested enterprise | RMB100 million | venture capital investment and the provision of related consultation services |
| Yihe Lianchuang (Wuxi) Venture Capital Enterprise (Limited Partnership)* (怡和聯創(無錫)創業投資企業(有限合夥), “Yihe Lianchuang Venture Capital”) | foreign-invested limited partnership | RMB300 million | venture capital investment and the provision of related consultation and management services |
| Wuxi Guolian Houze Venture Capital Enterprise (Limited Partnership)* (無錫國聯厚澤創業投資企業(有限合夥), “Guolian Houze Venture Capital”) | limited partnership | RMB600 million | venture capital investment and the provision of related management and consultation services |
| Wuxi Guolian Zhuocheng Venture Capital Co., Ltd.* (無錫國聯卓成創業投資有限公司, “Guolian Zhuocheng Venture Capital”) | limited liability company | RMB150 million | venture capital investment and the provision of related management and consultation services |

Note:

(1) As of the Latest Practicable Date, Lingxiang Fund has two general partners and one limited partner. Guolian Capital, a subsidiary of our Company, is a general partner and the managing partner of Lingxiang Fund. Guolian Capital Management, a subsidiary of Guolian Group, is the other general partner of Lingxiang Fund.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Excluded Financial Investment Entities in which the Controlling Shareholders held more than 10% but less than 30% equity interests:

| <u>Name</u> | <u>Nature</u> | <u>Registered capital/ Subscribed contribution</u> | <u>Business scope in relation to financial investment</u> |
|--|---------------------------|--|--|
| Wuxi Shangding Jiuding Investment Management Co., Ltd.* (無錫上鼎久鼎投資管理有限公司, “Shangding Jiuding Investment Management”) | limited liability company | RMB10 million | investment management and consultation |
| Wuxi Guolian Junyuan Venture Capital Center (Limited Partnership)* (無錫國聯浚源創業投資中心(有限合夥), “Guolian Junyuan Venture Capital”) | limited partnership | RMB191.8 million | venture capital investment and the provision of related management and consultation services |
| Xiyu Fund ⁽¹⁾ | limited partnership | RMB100 million | venture capital investment and the provision of related consultation services |
| Guoke Ruiqi Internet of Things Venture Capital Co., Ltd.* (國科瑞祺物聯網創業投資有限公司, “Guoke Ruiqi Venture Capital”) | limited liability company | RMB425 million | venture capital investment and the provision of related management and consultation services |
| Wuxi Guolian Venture Capital Fund (Limited Partnership)* (無錫國聯創投基金企業(有限合夥), “Guolian Venture Capital Fund”) | limited partnership | RMB349 million | venture capital investment and the provision of related management and consultation services |
| ABCI Wuxi Equity Investment Fund (Limited Partnership)* (農銀無錫股權投資基金企業(有限合夥), “ABCI Wuxi Equity Investment”) | limited partnership | RMB3.1 billion | external investment by the self-owned capital, the provision of related management and consultation services and entrusted asset management services |
| Guolian Kunwu Jiuding (Wuxi) Investment Center (Limited Partnership)* (國聯昆吾九鼎(無錫)投資中心(有限合夥), “Guolian Kunwu Jiuding Investment”) | limited partnership | RMB200 million | venture capital investment and the provision of related management and consultation services |

Note:

(1) As of the Latest Practicable Date, Xiyu Fund has one general partner and four limited partners. Guolian Capital, a subsidiary of our Company, is one of the limited partners of Xiyu Fund. Guolian Venture Capital, a subsidiary of Guolian Group, is also one of the limited partners of Xiyu Fund.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

| Name | Nature | Registered capital/ subscribed contribution | Business scope in relation to financial investment |
|---|-----------------------------|--|--|
| Wuxi Modern Agricultural Development Industry Investment Fund (Limited Partnership)* (無錫現代農業發展產業投資基金(有限合夥), “Wuxi Modern Agricultural”) | limited partnership | RMB500 million | equity investment and the provision of related consultation services |
| Wuxi Xilian Investment Development Co., Ltd.* (無錫錫聯投資發展有限公司, “Wuxi Xilian”) | limited liability company | RMB410 million | investment and management in enterprises, projects and infrastructure |
| Wuxi Shiguojin Venture Capital Enterprise* (無錫世國金創業投資企業, “Wuxi Shiguojin”) | foreign-invested enterprise | RMB300 million | venture capital investment and the provision of related consultation services |
| Guoshou (Wuxi) Urban Development Industry Investment Enterprise (Limited Partnership) ⁽¹⁾ (國壽(無錫)城市發展產業投資企業(有限合夥), “Guoshou Urban Development”) | limited partnership | RMB9.2 billion | investment in urban infrastructure and the provision of related management and consultation services |

In addition, one of our Directors, Mr. Hua Weirong, holds directorship in the following Excluded Financial Investment Entity as of the Latest Practicable Date:

| Name | Nature | Registered capital | Business scope in relation to financial investment |
|-------------------------|---------------------------|--------------------|--|
| Guolian Venture Capital | limited liability company | RMB200 million | venture capital investment, investment in high-tech industries and the provision of related management and consultation services |

Note:

(1) As of the Latest Practicable Date, Guolian Group held less than 10% equity interest in Guoshou Urban Development through Guolian Venture Capital, being a subsidiary of Guolian Group; however, Guolian Venture Capital acted as the managing partner of Guoshou Urban Development.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The following table sets out the relevant financial information of the Excluded Financial Investment Entities during the Track Record Period which were prepared in accordance with applicable accounting standards:

| Name | Revenue for the year ended December 31, | | | Net profits (loss) for the year ended December 31, | | |
|--|--|--------------------|--------------------|---|--------------------|--------------------|
| | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions |
| Guolian Trust | 364.3 | 466.4 | 598.0 | 243.9 | 328.8 | 426.5 |
| Guolian Capital Management | 6.5 | 10.7 | 12.7 | 3.9 | 15.2 | 4.0 |
| Guolian Venture Capital | — | — | — | 2.1 | 3.5 | (3.6) |
| Everbright Guolian Venture Capital | — | — | — | (7.9) | (66.8) | 25.8 |
| Yihe Guolian Investment Management | 6.0 | 5.9 | 6.2 | 0.005 | 0.002 | 0.001 |
| ABCI Guolian Investment Management | 64.6 | 12.4 | 12.4 | 37.2 | 8.0 | 5.4 |
| Houze Guolian Investment Management | 12.0 | 7.8 | 3.6 | 3.9 | 1.0 | (0.6) |
| Detong Guolian Investment Management | 6.0 | 4.8 | 4.9 | 0.01 | 0.05 | 0.02 |
| Lingxiang Fund | — | — | 0.4 | — | — | 0.3 |
| Detong Guolian Investment Center | 73.8 | 32.5 | 3.3 | 56.4 | 24.2 | (1.6) |
| Shiming Guolian Venture Capital | — | — | — | (2.3) | 8.6 | (2.2) |
| Yihe Lianchuang Venture Capital | — | — | — | (5.5) | 1.0 | 7.3 |
| Guolian Houze Venture Capital | — | — | — | (10.6) | (7.0) | (3.6) |
| Guolian Zhuocheng Venture Capital | — | — | — | (3.9) | 62.5 | 41.5 |
| Shangding Jiuding Investment Management | 4.0 | 4.0 | — | 0.2 | (0.02) | (0.01) |
| Guolian Junyuan Venture Capital | — | — | — | (8.6) | (4.8) | 15.6 |
| Xiyu Fund | — | — | — | (1.0) | (1.0) | (0.3) |
| Guoke Ruiqi Venture Capital | — | — | — | (5.5) | (6.5) | 2.1 |
| Guolian Venture Capital Fund | — | 0.4 | 0.1 | (3.5) | (1.0) | (0.1) |
| ABCI Wuxi Equity Investment | 18.9 | 90.7 | — | (47.3) | 75.4 | 50.0 |
| Guolian Kunwu Jiuding Investment | — | — | — | 0.6 | 0.7 | (1.7) |
| Wuxi Modern Agricultural | — | — | — | — | (0.0002) | 4.3 |
| Wuxi Xilian | — | — | — | (0.2) | (0.03) | 0.03 |
| Wuxi Shiguojin | — | — | — | (6.3) | 4.6 | 3.8 |
| Guoshou Urban Development | — | — | — | — | — | 231.9 |
| Total | 556.1 | 635.6 | 641.6 | 245.6 | 446.4 | 804.8 |

Our Direct Investment Business

The following table sets out the relevant financial information of Guolian Capital which were prepared in accordance with PRC GAAP during the Track Record Period:

| Name | Revenue for the year ended December 31, | | | Net profits (loss) for the year ended December 31, | | |
|-----------------|--|----------------------|--------------------|---|--------------------|--------------------|
| | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions |
| Guolian Capital | 6.8 | (4.9) ⁽¹⁾ | 12.0 | 3.5 | (5.6) | 6.7 |

Note:

(1) The negative amount of revenue for the year ended December 31, 2013 was mainly due to a net investment loss in the amount of RMB8.3 million recorded for the same year.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Reasons for exclusion of the Excluded Direct Investment Business

We are of the view that there is only limited competition between the Excluded Direct Investment Business and the direct investment business of Guolian Capital for the following reasons:

Materiality of Direct Investment Business

For the years ended December 31, 2012 and 2014, segment revenue and other income of our direct investment business accounted for approximately 0.9% and 0.6% of our total revenue, respectively, and 3.8% and 0.9% of the net profit of our Group, respectively. For the year ended December 31, 2013, Guolian Capital recorded negative amount of revenue and net loss. Our Directors estimate that the revenue and profit contribution of our direct investment business will continue to be insignificant in the near future.

Our Directors also estimate that, in the foreseeable future, our Group will continue to focus on brokerage, investment banking, asset management, credit transactions and proprietary trading businesses, and currently we have no plan to significantly expand the direct investment business of our Group.

Nature of the Relevant Market and Competition

Our Directors are of the view that the PRC direct investment market is sizable with a very large number of participants. As such, any competition between our Group and the Excluded Direct Investment Entities is of no difference with competition encountered by our Group with any Independent Third Party.

In addition, during the Track Record Period, instead of competing with the Excluded Direct Investment Entities, our Group actually had cooperated with the Excluded Direct Investment Entities, such as referral of potential target companies to each other and joint investment in the same target company so as to strengthen the bargaining power in business negotiations.

As of and up to the Latest Practicable Date, we had not competed with the Excluded Direct Investment Entities in any investment opportunity we identified on our own.

Operation and Management of the Excluded Direct Investment Entities

Our Controlling Shareholders invested in certain of the Excluded Direct Investment Entities only as minority shareholders, such as Wuxi Xilian and Wuxi Shiguojin, and are not involved in the business operation and management of such Excluded Direct Investment Entities. Thus, competition between our Group and these entities with regard to direct investment is almost of no difference with competition encountered by our Group with any Independent Third Party.

Directors' Interests in Excluded Direct Investment Business

Mr. Hua Weirong, a non-executive Director, is also a director of Guolian Venture Capital, one of the Excluded Direct Investment Entities. Therefore, he is deemed to be interested in the Excluded Direct Investment Business under the Listing Rules. However, Mr. Hua Weirong is not involved in the daily management of our Company, and is mainly responsible for formulating our corporate and business strategies and making decisions for our major affairs as a member of the Board. Similarly,

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Mr. Hua Weirong is not involved in the daily management of Guolian Venture Capital. Therefore, the possibility of conflict of interest due to Mr. Hua Weirong's role as a Director of our Company and a director of Guolian Venture Capital is quite remote.

Furthermore, the interests held by our Controlling Shareholders in the Excluded Direct Investment Entities are state-owned equity interests. Pursuant to the relevant laws and regulations of the PRC, such as the Law of the PRC on the State-owned Assets (《中華人民共和國企業國有資產法》) and the Provisional Measures for the Administration of the Transfer of the State-owned Property Rights of Enterprises (《企業國有產權轉讓管理暫行辦法》), in order to transfer part or all of the equity interests held by any of our Controlling Shareholders in the Excluded Direct Investment Entities, the relevant party must apply to the relevant entities or people's governments performing duties and responsibilities of shareholders for approvals and such transfer normally shall be conducted by way of public bidding through legally established equity exchanges. Transfer by way of agreement through negotiation is only allowed upon satisfaction of certain conditions specified by relevant laws and regulations, as well as approval from the SASAC at or above the provincial level. As a result, it is expected that our Company may need a substantial amount of time and resources to obtain necessary approvals to acquire interest in the Excluded Direct Investment Business. In addition, due to the nature of the public bidding, there is no guarantee that the Excluded Direct Investment Business can be injected into our Group.

Measures to Eliminate Potential Competition

We entered into the Non-competition Agreement with our Controlling Shareholders on June 15, 2015, pursuant to which our Controlling Shareholders shall, and shall procure their controlled entities (as defined in “– Non-competition Agreement with Our Controlled Shareholders – Non-competition” below) to, comply with relevant requirements under the Non-competition Agreement with regard to any of their future direct investment business to be carried out after the Listing, including without limitation, relevant requirements in relation to options for New Direct Investment Business Opportunities and Pre-emptive Rights (each as defined under “–Non-competition Agreement with our Controlling Shareholders” below). As such, any potential competition between our direct investment business and that of our Controlling Shareholders in the future will be substantially eliminated, and thus, negligible.

Our Company confirms that, in the foreseeable future (i.e. at least three years from the Listing Date), we have no plan to acquire the Excluded Direct Investment Business, or to significantly expand the existing direct investment business carried out by Guolian Capital.

NON-COMPETITION AGREEMENT WITH OUR CONTROLLING SHAREHOLDERS

Non-competition

Our Controlling Shareholders entered into the Non-Competition Agreement in favor of our Group on June 15, 2015, pursuant to which each of our Controlling Shareholders has jointly and severally and irrevocably undertaken to our Group that, save for the Excluded Asset Management Business and businesses to be carried out by our Controlling Shareholders and their controlled entities (as defined below) under the circumstances as mentioned in “–Exceptions” below, they would not, and would procure that their controlled entities (as defined below) would not, during the restricted period set out below, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, invest in, participate in, be engaged in and/or

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operate or be interested in (in each case whether as a shareholder, partner, agent, employee or otherwise) any business, which competes or is likely to compete, directly or indirectly, with the business of any member of our Group from time to time (the “Non-competition Business”). In addition, our Controlling Shareholders will exercise each of their voting rights in the relevant board meetings and shareholders’ meetings and use each of their best efforts to procure their associated entities to comply with such requirements. Under the Non-competition Agreement, the controlled entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholders (i) can exercise or control the exercise of more than 50% of the equity interest, issued share capital or the voting power at general meetings (if applicable); (ii) are entitled to more than 50% of the after-tax profits; (iii) can control the composition of a majority of the board of directors; or (iv) take actual control through agreements or any other arrangements. Associated entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholders have interest and which are not controlled entities. Pursuant to the Non-competition Agreement, the Non-competition Business refers to all business lines of our Group operated currently and to be operated from time to time in the future, which includes but not limited to: (i) securities brokerage; (ii) investment banking, including equity financing, debt financing, financial advisory services to institutional clients, listing and referral services as chief agency broker to provide assistance to companies entering the NEEQ, and market-making business on the NEEQ; (iii) asset management (except futures-related asset management); (iv) credit transactions, including margin financing and securities lending, as well as other types of capital-based intermediary business, such as securities-backed lending and securities repurchase; and (v) securities proprietary trading. For direct investment business, please refer to “—Options for New Direct Investment Business Opportunities” below.

The “restricted period” stated in the Non-competition Agreement refers to the period commencing from the Listing Date and ending on the earlier of (i) the H Shares of our Company being cancelled or ceased to be listed on the Stock Exchange; (ii) in relation to each Controlling Shareholder, the relevant Controlling Shareholder and its respective associate (excluding our Group) ceasing to hold, directly or indirectly, any equity interest in our Company; or (iii) our Controlling Shareholders and its respective associates (excluding our Group) ceasing to be entitled to exercise or control the exercise of 30% or more in aggregate of the voting rights at general meetings of our Company and have no power to control the composition of the majority of the members of the Board of our Company.

Options for New Direct Investment Business Opportunities

Each of our Controlling Shareholders has undertaken that, during the restricted period, if any direct investment business opportunity is noticed by or offered to any of our Controlling Shareholders or its controlled entities (the “New Direct Investment Business Opportunity”), the relevant Controlling Shareholder or its controlled entities will immediately notify our Company in writing of the New Direct Investment Business Opportunities (the “Offer Notice”), and will assist our Group to obtain such New Direct Investment Business Opportunities on the same terms as those offered to it, or on more favorable terms or on terms acceptable to our Group. In addition, our Controlling Shareholders will exercise each of their voting rights in the relevant board meetings and shareholders’ meetings and use each of their best efforts to procure their associated entities to pass on to us any New Direct Investment Business Opportunity.

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Our Controlling Shareholders will be entitled to pursue such New Direct Investment Business Opportunities only if (i) the target business that such New Direct Investment Business Opportunity will invest into does not compete, directly or indirectly, with the Non-Competition Business; (ii) our Controlling Shareholders or their respective controlled entities have given us the Offer Notice and provided the relevant documents and information to us in relation to the terms and conditions with respect to New Direct Investment Business Opportunities; (iii) subject to the approval of the investment decision committee of Guolian Capital, our Company has confirmed that our Group does not intend to invest in, conduct, operate or participate in such New Direct Investment Business Opportunities and has informed our Controlling Shareholders and/or their respective controlled entities in writing; and (iv) the major terms and conditions on which our Controlling Shareholders and/or their respective controlled entities invest in, conduct, operate or participate in such New Direct Investment Business Opportunities subsequently will not be more favorable than those terms and conditions offered to our Company. In the event that the investment decision committee of Guolian Capital decides to invest in, conduct, operate or participate in the New Direct Investment Business Opportunities, our Group will comply with relevant requirements under the Listing Rules (including Shareholders' approval requirements, if applicable).

During the Track Record Period, Guolian Capital came across and considered five to six direct investment business opportunities each year. For New Direct Investment Business Opportunities, considering that (i) the controlled entities of our Controlling Shareholders came across and considered more than 20 direct invest business opportunities each year during the Track Record Period; (ii) the number of such New Direct Investment Business Opportunities to be referred to us pursuant to the Non-Competition Agreement is expected to be over 20 per annum in the near future, subject to fluctuations in the market; and (iii) whether investment decision can be made in a timely manner is one of the key factors affecting the success of conducting direct investment, subject to the compliance with the requirements of the Listing Rules and the Stock Exchange, it is more practical and in the best interests of our Group and the Shareholders as a whole that the decision as to whether or not our Group will take up such New Direct Investment Business Opportunities shall be made by the existing investment decision committee of Guolian Capital, which was established shortly after the establishment of Guolian Capital and is the decision-making organization for direct investment projects under the authorization of the board of Guolian Capital. The investment decision committee of Guolian Capital currently comprises of eight members, namely, Mr. Lei Jianhui (雷建輝), Mr. Peng Yanbao (彭焰寶), Mr. Li Zhengquan (李正全), Mr. Zhang Hao (張浩), Mr. Gu Zhimin (顧志敏), Mr. Yang Xiaoming (楊小明), Mr. Zhu Wenge (朱文革) and Mr. Huang Song (黃嵩). Among these eight members of the investment decision committee of Guolian Capital, Mr. Lei Jianhui is our executive Director, and Mr. Peng Yanbao and Mr. Li Zhengquan are members of the senior management of our Company. Please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus for their detailed biographical information. For the remaining five members of the investment decision committee of Guolian Capital, Mr. Gu Zhimin and Mr. Yang Xiaoming currently serve as members of senior management of Guolian Capital; Mr. Zhang Hao holds management position in our Company; Mr. Huang Song is an independent external expert from Peking University and Mr. Zhu Wenge holds management position in both one of our Controlling Shareholders and an entity controlled by our Controlling Shareholders. To avoid any conflict of interest, Mr. Zhu Wenge will not participate in the decision-making procedure in relation to such New Direct Investment Business Opportunities, but he is eligible to participate in the decision-making procedures of other direct investment business opportunities of Guolian Capital. Other than Mr. Zhu Wenge, none of the other members of the investment decision committee of Guolian Capital currently holds any position with our Controlling Shareholders. Each of these eight members of the investment decision committee of Guolian Capital

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has at least 10 years of working experience in financial industries and owns practical direct investment expertise and profound understanding in the direct investment industry. In addition, each of them holds a bachelor's degree or higher, and some of them also hold the PRC Practicing Certificate of Securities Industry (中國證券業執業證書). An updated internal guideline has been established by Guolian Capital which sets out the duties and procedures for the investment decision committee of Guolian Capital to consider the New Direct Investment Business Opportunities to be referred by our Controlling Shareholders and its controlled entities pursuant to the Non-competition Agreement. Pursuant to such guideline, we have adopted certain measures to address and prevent any potential conflict of interest between our Company and our Controlling Shareholders, including that (i) each of the members of the investment decision committee of Guolian Capital should declare whether they have any interest in the subject New Direct Investment Business Opportunity each time before they attend and vote at a meeting of the investment decision committee of Guolian Capital to consider such New Direct Investment Business Opportunity, and should abstain from voting if he has any interest; and (ii) our independent non-executive Directors will review the latest biographical information (particularly information in relation to positions held in those entities other than members of our Group and controlled by any of our Controlling Shareholders) and other relevant information of each members of the investment decision committee of Guolian Capital on a bi-annual basis, and if there is anything that our independent non-executive Directors believe would result in conflict of interest, the relevant member of the investment decision committee of Guolian Capital will no longer participate in the decision-making procedure in relation to such New Direct Investment Business Opportunity. When considering New Direct Investment Business Opportunities, the investment decision committee of Guolian Capital shall first obtain all necessary information from our Controlling Shareholders and will make the decisions based on certain principles, including, without limitation, the business development of our Group and the best interest of our Shareholders. In addition, our independent non-executive Directors will review such decisions (including basis for such decisions) made by the investment decision committee of Guolian Capital on a bi-annual basis, and such review results (including basis for such review results) will be disclosed in the interim and annual reports and announcements of the Company pursuant to the requirements of the Listing Rules.

Pre-emptive Rights

Each of our Controlling Shareholders has undertaken that, during the restricted period, if it or any of its controlled entities intends to transfer, sell, lease or license or otherwise transfer the New Direct Investment Business Opportunities to a third party, or permit the operation by a third party of the same, it shall notify us by written notice (the "Selling Notice") in advance. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by our Company to make an investment decision. We shall reply to our Controlling Shareholders or their respective controlled entities within 30 days after receiving the Selling Notice. Each of our Controlling Shareholders and their respective controlled entities has undertaken that until it receives the reply from our Company, it shall not notify any third party of the intention to transfer, sell, lease or license such New Direct Investment Business Opportunities, or otherwise transfer or permit the operation of the same. If our Company notifies our Controlling Shareholders or their respective controlled entities in writing, not to exercise the pre-emptive rights (the "Pre-emptive Rights") or if our Company does not reply to our Controlling Shareholders or their respective controlled entities within the period described above, our Controlling Shareholders or their respective controlled entities are entitled to transfer, sell, lease or license the New Direct Investment Business Opportunities to a third party, or otherwise transfer, or permit the operation of the same pursuant to the terms stipulated in the Selling Notice. In addition, our Controlling Shareholders have undertaken to exercise each of their

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voting rights in the relevant board meetings and shareholders' meetings of their associated entities and use each of their best efforts to procure their granting of the Pre-emptive Rights to us.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the Pre-emptive Rights, provided that the independent non-executive Directors who are interested in the proposed New Direct Investment Business Opportunities and are related to the Pre-emptive Rights shall abstain from the decision-making process. When considering whether or not to exercise the Pre-emptive Rights, the independent non-executive Directors will consider certain factors, including, but not limited to, business scale, business prospect, estimated profitability, investment value and permits and approval requirements. The decisions of our independent non-executive Directors and their basis will be disclosed in the interim and annual reports and announcements of our Company pursuant to the requirements of the Listing Rules.

Exceptions

In the event that a Board meeting or a general meeting of our Shareholders resolves (if applicable) that it is appropriate for our Controlling Shareholders and/or their respective controlled entities (excluding the Group) and our Company (and/or its subsidiaries) to jointly invest in, conduct, operate or participate in the New Direct Investment Business Opportunities (excluding any opportunity to invest in any business, which competes, directly or indirectly, with the Non-Competition Business), and upon our Company's written invitation, our Controlling Shareholders and/or their respective controlled entities may, pursuant to the content of the written invitation from our Company, together with our Company (and/or its subsidiaries), jointly invest in, conduct, operate or participate in such business opportunities subject to the provisions of the Listing Rules and any requirement from the Stock Exchange (including but not limited to the obtaining of approval from the independent non-executive Directors, the Board of Directors and the general meetings of our Company at which the Controlling Shareholders shall abstain from voting and/or other approvals).

In addition, under any one of the following circumstances, our Controlling Shareholders and/or their respective controlled entities may hold or own the shares or any other securities of any company listed on any stock exchange recognized by the laws of the relevant countries (including a stock exchange recognized by the laws and regulations of the PRC):

- (a) the latest audited accounts of such company prepared in accordance with the relevant accounting standards and systems (if unconsolidated accounts and consolidated accounts are prepared simultaneously, then shall use the consolidated accounts) show that the turnover of those business identical with or similar to Non-competition Business accounts for no more than 10% of the total turnover of this company, or the net assets of such business accounts for no more than 10% of the total net assets of this company; or
- (b) the total number of the shares held by our Controlling Shareholders and/or their respective controlled entities in aggregate does not exceed 5% of the total issued share capital of such company, and our Controlling Shareholders and/or their respective controlled entities are not entitled to appoint a majority of the directors of such company, and at any time there should exist at least another shareholder whose shareholding in such company is higher than the total number of aggregate shares held by our Controlling Shareholders and their respective controlled entities.

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Further Undertaking

Each of our Controlling Shareholders and their respective controlled entities has further undertaken that:

- (a) upon the request of our independent non-executive Directors, the investment decision committee of Guolian Capital or our auditor, it will provide all information necessary for our independent non-executive Directors, the investment decision committee of Guolian Capital or our auditor to review our Controlling Shareholders' and their respective controlled entities' compliance with and enforcement of the Non-competition Agreement (including, without limitation, relevant requirements in relation to Options of New Direct Investment Business Opportunities and Pre-emptive Rights);
- (b) it agrees that we disclose the decision (including basis for such decision) made by or review results (including basis for such review results) of the independent non-executive Directors related to the compliance by our Controlling Shareholders and their respective controlled entities, with and enforcement of the Non-competition Agreement (including, without limitation, relevant requirements in relation to Options of New Direct Investment Business Opportunities and Pre-emptive Rights) in our interim and annual reports and announcements pursuant to the requirements of the Listing Rules; and
- (c) it will make a declaration to our Company and our independent non-executive Directors, the investment decision committee of Guolian Capital and/or our auditor bi-annually regarding its compliance with the Non-competition Agreement (including, without limitation, relevant requirements in relation to Options of New Direct Investment Business Opportunities and Pre-emptive Rights) for us to disclose in our interim and annual reports and announcements pursuant to the requirements of the Listing Rules.

Our Controlling Shareholders have been informed that our Company will also adopt the following procedures to make sure that the undertakings under the Non-competition Agreement (including, without limitation, relevant requirements in relation to Options of New Direct Investment Business Opportunities and Pre-emptive Rights) are observed by our Controlling Shareholders:

- (a) we will provide to the investment decision committee of Guolian Capital the Offer Notice and Selling Notice (as the case may be) within seven days of receipt;
- (b) our independent non-executive Directors and investment decision committee of Guolian Capital will report in our interim and annual reports and announcements after Listing pursuant to the requirements of the Listing Rules (i) any decision (including basis for such decision) made pursuant to the Offer Notice, the Option for Acquisition and Selling Notice granted or given to our Company and (ii) findings of our independent non-executive Directors of their bi-annual review of the decisions made by the investment decision committee of Guolian Capital pursuant to the Offer Notice in relation to New Direct Investment Business Opportunities; and
- (c) the Directors consider that the independent non-executive Directors and the investment decision committee of Guolian Capital have sufficient experience in assessing whether or not to take up the New Direct Investment Business Opportunities or exercise the Option for Acquisition or the Pre-emptive Rights. In any event, the independent non-executive Directors or the investment decision committee of Guolian Capital may appoint financial advisor or professional expert to provide advice, at the cost of our Company, in connection with the decision made pursuant to the Offer Notice in respect of the taking up of New

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Direct Investment Business Opportunities, and the exercise or non-exercise of the Option for Acquisition and the Pre-emptive Rights under the Non-competition Agreement.

Indemnity

In the event that any of our Controlling Shareholders is in violation of any undertakings in the Non-competition Agreement, or any representation or warranty made by any of them under the Non-competition Agreement is untrue, incorrect or misleading, such Controlling Shareholder agrees to indemnify our Company and its subsidiaries for all losses (including but not limited to loss of business) incurred by the same as a result of such violation.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that following completion of the Global Offering, we can conduct our business independently from our Controlling Shareholders and their respective associates.

Operational Independence

Apart from the connected transactions as described below, we own or have the right to use all the operational facilities and technologies relating to our business and hold all relevant qualifications, permits and licenses. We currently conduct our principal businesses independently and we have the ability to formulate, make 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, any of our Controlling Shareholders or their respective associates.

We have our own organizational structure and departments with specific authorities independent from our Controlling Shareholders. During the Track Record Period, we submitted certain investments to Guolian Group for approval. In December 2014, we adopted the revised terms of reference of the Risk Control Committee pursuant to which, the approval for any investment will be made within our Group. We also maintain a comprehensive set of internal control procedures for promoting efficient business operations. With reference to the relevant laws, regulations and rules, we developed 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 rules for identification and disclosure of connected transactions.

We are the only securities firm in which Guolian Group holds an equity interest and we have been using the design trademark of Guolian Group for a number of years. Guolian Group has agreed to license such design trademark to us at nil consideration. We have leased and will lease certain data and network devices from the associates of Guolian Group on normal commercial terms. In addition, we have also entered into certain continuing connected transactions to lease properties from Guolian Group and/or its associates and engaged an associate of Guolian Group to provide property related services. These transactions were entered into on normal commercial terms after arm's length negotiations and the rentals payable by our Group are fair and reasonable and consistent with the prevailing market rates. Our Directors are of the view that even if these transactions are terminated and the relevant premises or property related services are no longer available to our Group, our Group would be able to find suitable replacing properties or property management services, with fair and

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reasonable rentals consistent with the prevailing market rates through arm's length negotiation and without undue delay and inconvenience. For further details, please see the section headed "Connected Transactions" in this prospectus.

In view of the aforesaid reasons, our Directors believe that we can operate independently from our Controlling Shareholders.

Financial Independence

We have an independent finance department with its own staff, as well as a sound and independent audit system. Although we shared financial and accounting management system with Guolian Group during the Track Record Period, we have established a new financial management system which has been put into trial operation since January 2015 and such system has operated separately and independently since March 2015. We can also make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We maintain basic accounts with banks independently and none of our Controlling Shareholders shares any bank account with us. We have made independent tax registrations and paid tax independently pursuant to applicable PRC tax laws and regulations.

We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations. We have access to independent third party financing and are capable of obtaining such financing without the need to rely on any guarantees or security provided by our Controlling Shareholders. During the Track Record Period, other than those mentioned below, all our credit facilities were obtained from independent commercial banks and other financial institutions without any assistance, guarantee or security from our Controlling Shareholders:

- Our Company entered into a subordinated debt agreement with Guolian Group, pursuant to which our Company can obtain financing in the total amount of RMB800 million from Guolian Group to supplement our Net Capital required for carrying out new business activities. Our Company has lent subordinated debt of RMB650 million from Guolian Capital under this agreement. As of the Latest Practicable Date, all outstanding subordinate corporate bonds we issued to Guolian Group had been redeemed.
- We issued subordinated corporate bonds due in October 30, 2017 in the amount of RMB1.5 billion to institutional investors on October 29, 2014, and such subordinated bonds were supported by an undertaking given by Guolian Group. Pursuant to such undertaking, Guolian Group agreed, among others, to (i) maintain as the absolute controlling shareholder of our Company through both direct and indirect holding of issued share capital of our Company; (ii) provide liquidity support to our Company through short-term financing in the event of any liquidity risk or payment difficulty of our Company; and (iii) provide financial support to our Company by means of supplement share capital contribution to ensure the continuous compliance with the regulatory capital requirements and the ongoing favorable debt repaying position of our Company. Such undertaking will be terminated immediately upon Listing.

During the Track Record Period and as of the Latest Practicable Date, we have received short-term loans from Guolian Finance to meet our Group's temporary capital needs, such as the short-term capital needs for commencing our margin financing and securities lending business. These loans have

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been provided to us on terms similar to or more favorable than those available from commercial banks or independent financial institutions in the open market. During the Track Record Period, the maximum and minimum term for these loans were seven days and one day, respectively, while the maximum and minimum amount for a single loan were RMB400 million and RMB8 million, respectively. The commercial rationale for our Group to obtain the loans from Guolian Finance was that, through years of cooperation, Guolian Finance has become familiar with our capital structure, business operations, funding needs, cash flow pattern, cash management and our overall financial administrative system, which enables it to render more expedient, efficient and flexible services to us than the commercial banks and other independent financial institutions in the PRC. In addition, Guolian Finance is able to provide loans to us on a fast-track basis with simplified and streamlined approval, drawdown and repayment procedures. When faced with urgent business and operation needs, Guolian Finance will be well-positioned to provide us short-term funding support in a timely and efficient manner. Our Group may (but is not obliged to) utilize the loans provided by Guolian Finance to deploy and manage its financial resources flexibly and efficiently. The provision of loans by Guolian Finance to us is carried out in our ordinary and usual course of business. We have adopted and implemented adequate and effective internal control measures to monitor the transactions relating to such loans provided by Guolian Finance. For the avoidance of doubt, our business relationship with Guolian Finance in respect of the provision of loans does not prohibit our Group from using services provided by commercial banks or other independent financial institutions in the open market; and our Group retains discretion to make its selection according to our business needs as well as the fees and quality of such services.

Pursuant to the General Provisions of Loans (《貸款通則》) issued by the PBOC and the supervision of CBRC, loans can only be provided by authorized institutions which are (i) approved by the PBOC to engage in loan business, (ii) holding the Financial Institution Legal Person License (《金融機構法人許可證》) or the Financial Institution Business License (《金融機構營業許可證》) issued by the PBOC, and (iii) registered with competent administrations for industry and commerce. Guolian Finance is approved by the relevant PRC authorities to carry out relevant financial services including, among others, providing loan to other group companies.

As of April 30, 2015, the outstanding loans extended to us from Guolian Finance was nil. In addition, we have obtained credit facilities from certain commercial banks and independent financial institutions (without any guarantee from our Controlling Shareholders). As of April 30, 2015, approximately RMB3,700.0 million under such facilities were available to us for draw-down, which was significantly higher than the RMB400.0 million maximum daily balance of loans provided by Guolian Finance throughout the Track Record Period. Please see “Financial Information—Off-Balance Sheet Arrangement” for further details. There was no outstanding loan provided by Guolian Finance to us as of the Latest Practicable Date, but we expect to continue to obtain loans from Guolian Finance after the Listing when there is financial needs.

Taking into account (i) the amount of credit facilities already successfully obtained from commercial banks and other independent financial institutions without any assistance, guarantee or security from our Controlling Shareholders; (ii) only a small proportion of our borrowings were loans extended from Guolian Finance (which are on terms no less favorable than those available from independent commercial banks or other independent financial institutions); (iii) the benefits of receiving loans provided by Guolian Finance, the risk control measures we have adopted in respect of such loans, as well as our discretion to use services provided by commercial banks or other financial institutions; and (iv) our ability to obtain credit facilities from commercial banks or other independent

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financial institutions without recourse from our Controlling Shareholders, our Directors are of the view that the loans provided by Guolian Finance during the Track Record Period would not affect our financial independence from our Controlling Shareholders; going forward, our Company remains capable of obtaining financing from external sources for our business operations upon market terms and conditions without reliance on our Controlling Shareholders and will be financially independent from the our Controlling Shareholders and/or their respective associates upon the Listing.

Management Independence

The Board is comprised of nine Directors. Apart from Mr. Yao Zhiyong (姚志勇), Mr. Hua Weirong (華偉榮) and Mr. Jiang Zhijian (蔣志堅), who hold positions in the Controlling Shareholders or their respective associates, the other six Directors do not hold any directorship or senior management positions in any of our Controlling Shareholders and/or its associates. Among these six Directors, one is an executive Director, two are non-executive Directors and three are independent non-executive Directors, and each of them has relevant experience to ensure that the Board performs its functions effectively.

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The following table sets forth the positions held by our Directors in our Controlling Shareholders and/or its associates:

| Name of Director | Position held in our Company | Position held in our Controlling Shareholders and/or their respective associates |
|----------------------------|------------------------------------|---|
| Mr. Yao Zhiyong (姚志勇) | Chairman and an executive Director | a director of Surrich International Company Limited* (錫洲國際有限公司, “Surrich International”) (a company held directly as to 100% by Guolian Group) |
| Mr. Hua Weirong (華偉榮) | non-executive Director | <p>a deputy president of Guolian Group</p> <p>the president of Wuxi Guolian Financial Investment Group Co., Ltd.* (無錫國聯金融投資集團有限公司, a company held directly as to 100% by Guolian Group)</p> <p>a director of Wuxi Baolian Investment Co., Ltd.* (無錫市寶聯投資有限公司) (a company held indirectly as to 60% by Guolian Group)</p> <p>the chairman of the board of Guolian Venture Capital</p> <p>a director of Wuxi Delian Investment Co., Ltd.* (無錫市德聯投資有限公司) (a company held indirectly as to 48.99% by Guolian Group)</p> <p>the chairman of the board of Jiangsu Asset Management Co., Ltd.* (江蘇資產管理有限公司) (a company held as to 70% by Guolian Group)</p> <p>a director of Wuxi Liantai Venture Capital Co., Ltd.* (無錫聯泰創業投資有限公司, “Wuxi Liantai”) (a company held as to 48.99% by Guolian Group)</p> |
| Mr. Jiang Zhijian (蔣志堅) | non-executive Director | <p>the chairman of the board of Guolian Environmental</p> <p>a vice president of Guolian Group</p> <p>a director of Guolian Industrial</p> <p>a director of Huaguang Boiler</p> <p>a director of Jiangyin Thermoelectricity Co., Ltd.* (江陰熱電有限公司) (a company held indirectly as to 50% by Guolian Group)</p> <p>a director of Guolian New Energy</p> <p>a director of Wuxi Zhike Sensor Network Technology Co., Ltd.* (無錫智科傳感網技術股份有限公司) (a company held indirectly as to 33.33% by Guolian Group)</p> <p>a director of Wuxi Fengsheng Technology Co., Ltd.* (無錫豐晟科技有限公司) (a company held indirectly as to 36.76% by Guolian Group)</p> |

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The following table sets forth the positions held by our Supervisors and senior management in our Controlling Shareholders and/or its associates:

| Name of Supervisors and senior management | Position held in our Company | Position held in our Controlling Shareholders and/or their respective associates |
|---|---------------------------------------|---|
| Mr. Jin Guoxiang (金國祥) | Shareholder representative Supervisor | the chairman of the board of Wuxi Tianyuan Industrial Co., Ltd.* (無錫天元實業有限公司) (a company held indirectly as to 100% by Guolian Group) the chairman of the board of Wuxi Qingfa Textile Co., Ltd.* (無錫慶發紡織有限公司) (a company held indirectly as to 100% by Guolian Group) |
| Mr. Xu Faliang (徐法良) | Chief Compliance Officer | the chairman of the supervisory committee of Guolian Futures |

Except for the above-listed individuals, none of the Directors, Supervisors or senior management of our Company holds any position in any of our Controlling Shareholders and/or its associates.

Except for holding positions in our Company, Mr. Yao Zhiyong, Chairman of the Board and an executive Director, also holds position in Surrich International, a wholly-owned subsidiary of the Controlling Shareholders. However, he does not participate in the daily operation and management of Surrich International, and he has confirmed that he will devote majority of his time and efforts to our Group. Mr. Hua Weirong and Mr. Jiang Zhijian, who also hold positions in the Controlling Shareholders and their respective associates, are not our executive Directors and are therefore not involved in the daily management of our Company, but are mainly responsible for participating in formulating corporate and business strategies and decision-making on significant events as members of the Board. Mr. Jin Guoxiang, who holds positions in the Controlling Shareholders and their associates, is our Shareholder representative Supervisor performing a supervisory function over our Company and is therefore not involved in the daily management of our Company. Mr. Xu Faliang, our Chief Compliance Officer, holds a position in Guolian Futures, an associate of the Controlling Shareholders as a supervisor, which mainly performs a supervisory function over Guolian Futures and is therefore not involved in the daily management of Guolian Futures and capable of devoting a majority of his time and efforts to our Group.

We believe our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from our Controlling Shareholders 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 our Controlling Shareholders, the Director(s) associated with our Controlling Shareholders 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 our Company shall give their independent opinions to the Board on the relevant connected transaction(s) pursuant to the Listing Rules;
- (b) we have appointed three independent non-executive Directors (accounting for one-third of the Board) to balance the numbers of interested Director(s) and independent non-executive

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Directors for the protection of the interests of our 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 our Group and the Shareholders as a whole.

Based on the foregoing, the Directors believe that our management team is independent from our Controlling Shareholders.

FINANCIAL INFORMATION

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, asset management and investment, credit transactions and proprietary trading businesses. The main products and services of each of principal business lines are set out below:

- **Brokerage:** We act as agent to our customers in the trading of stocks, funds and bonds and also provide other services, such as the sales of financial products, futures IB business and investment advisory business.
- **Investment banking:** We provide equity financing, debt financing and financial advisory services to institutional clients through Hua Ying Securities, one of our subsidiaries, in which we hold a majority of the shareholding. We also directly provide listing and referral services as chief agency broker to help companies enter into the NEEQ.
- **Asset management and investment:** We offer collective asset management schemes, targeted asset management schemes and specialized asset management schemes to our clients. We also carry out direct investment business through our wholly-owned subsidiary, Guolian Capital.
- **Credit transactions:** We use the funds we own or raise to provide margin financing and securities lending and engage in other capital-based intermediary businesses, such as securities-backed lending and securities repurchase.
- **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.

We have achieved rapid growth and enhanced our profitability during the Track Record Period. Our revenue and other income increased by 39.8% from RMB772.4 million in 2012 to RMB1,079.5 million in 2013, and further increased by 97.5% to RMB2,131.6 million in 2014, representing a CAGR of 66.1%. Our net profit for the year increased by 196.2% from RMB92.1 million in 2012 to RMB272.8 million in 2013 and further increased by 167.7% to RMB730.4 million in 2014, representing a CAGR of 181.6%. In addition, as at December 31, 2012, 2013 and 2014, we had total assets of RMB9,295.9 million, RMB11,932.3 million and RMB20,448.8 million, respectively.

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RECENT DEVELOPMENTS

The trading volume of our securities brokerage business amounted to RMB1,149,685.3 million for the five months ended May 31, 2015. Through May 31, 2015, we had 99,268 new brokerage clients. In addition, we obtained the relevant qualifications in January 2015 to engage in options brokerage business, and to act as an agent to our customers to carry out options trading.

With respect to our investment banking business, Hua Ying Securities had completed three equity private placement transactions in the first five months of 2015. In addition, as of May 31, 2015, Hua Ying Securities had nine active private placement transactions, one of which had passed review by the CSRC and five transactions were under review by the CSRC. As of the same date, Hua Ying Securities had nine active debt financing transactions, one of which was under review by the CSRC. Furthermore, our total AUM increased by 6.6% to RMB17,789.1 million as of May 31, 2015 from RMB16,695.3 million as of December 31, 2014. Since December 31, 2014 and up to May 31, 2015, our margin financing and securities lending business experienced steady growth while our securities-backed lending and securities repurchase business had a small decline in terms of outstanding balance. In addition, we obtained the qualifications to conduct options investment and market-making businesses in January 2015 and have commenced such business in February 2015.

As of January 20, 2015, we issued subordinated corporate bonds in the principal amount of RMB1.5 billion to certain financial institutions, the major terms of which are as follows:

| | |
|------------------|--------------------------------------|
| Principal amount | RMB1.5 billion |
| Interest | 6.0% |
| Maturity | One year |
| Issuer rating | AA+ |
| Bond rating | AA |
| Rating agency | China LianHe Credit Rating Co., Ltd. |
| Issue date | January 20, 2015 |
| Offer price | 100% |

On January 22, 2015 and February 6, 2015, we used a portion of the proceeds from this subordinated corporate bonds issuance in January 2015 to redeem the outstanding subordinated corporate bonds of RMB650.0 million issued to Guolian Group in 2011 and the outstanding subordinated corporate bonds of RMB300.0 million issued to an asset management company in 2014. During the first four months of 2015, we issued eight income certificates to certain banks and financial institutions in the PRC in an aggregate amount of RMB1,460.0 million, of which two income certificates with an aggregate amount of RMB300.0 million have matured and were settled as of April 30, 2015. For details of the major terms of the subordinated corporate bonds we issued in 2011 and of the income certificates we issued in 2015, please refer to “—Liquidity and Capital Resources—Assets and Liabilities—Indebtedness.”

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 available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value, 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.

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The financial information incorporates our financial statements and financial statements of entities controlled by us. Control is achieved when we are 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. 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 inter-company transactions, balances and unrealized profits on transactions between group companies are eliminated on a consolidated basis. 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 results of operations and financial condition are significantly affected by the general economic and market conditions in the PRC and the business environment in which we operate. A favorable business environment generally includes the following conditions: steady GDP growth, liquid and efficient capital markets, reasonable inflation, high investor confidence, stable geopolitical conditions and rising personal wealth. Unfavorable or uncertain economic and market conditions include, but not limited to:

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

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 volume. Unfavorable market conditions can materially and adversely affect investor confidence and may cause them to be less inclined to trade until market conditions improve, resulting in reduced brokerage commission and fee income;
- 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 capital raising activities and financial advisory transactions, which could have a material and adverse effect on the revenue and profitability of our investment banking business;
- we receive asset management fees based on the value of our clients' portfolios or their assets managed by us. In addition, we may also earn performance fees for certain collective and targeted asset management schemes if we achieve certain targeted

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investment returns. Adverse market conditions or market volatility may affect the performance of the client assets we manage, which could materially and adversely affect the management fees and/or performance fees we can receive from our asset management business;

- the scale of our credit transaction business depends on the PRC A share market conditions and trading volume. Significant market fluctuations may deter our customers from participating in margin financing or securities lending activities or take advantage of the other credit transactions businesses we offer, such as securities-backed lending. A slow-down in these activities may reduce the interest income we generate for our credit transactions business; and
- 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. While we use derivative instruments to hedge the exposure to declines in market value, only a portion of our investment portfolio is hedged by using such derivative instruments.

Trading Volume

Commission and fee income on securities brokerage has been the substantial component of our total revenue and other income. In 2012, 2013 and 2014, our commission and fee income on securities brokerage amounted to RMB412.8 million, RMB573.3 million and RMB754.3 million, respectively, representing 53.4%, 53.1% and 35.4% of our total revenue and other income, respectively.

Commission and fee income on securities brokerage is generally driven by the volume of trades we execute for our clients and the brokerage commission rate. 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 strong performance of the PRC stock market in 2013 and 2014, the average daily trading volume in the PRC stock market increased by 51.6% from RMB128.9 billion in 2012 to RMB195.4 billion in 2013, and further increased by 54.3% to RMB301.5 billion in 2014. Accordingly, our securities brokerage trading volume increased by 49.2% from RMB349,800.4 million in 2012 to RMB521,868.8 million in 2013, and further increased by 59.4% to RMB831,943.6 million in 2014, which resulted in a 38.9% increase in the commission and fee income on securities brokerage from RMB412.8 million in 2012 to RMB573.3 million in 2013, and another 31.6% increase to RMB754.3 million in 2014.

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 material source of revenue in the foreseeable future. Any decline in the level of trading volume in the PRC securities market could have a material and adverse effect on our business and results of operations.

Competition

As of December 31, 2014, there were 119 securities firms in the PRC. 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 branches in Jiangsu province in terms of pricing, branch network coverage and the

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types of products and services offered. According to Wind Info, as of December 31, 2013, there were 66 securities firms doing business in Jiangsu province.

- 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.
- For the asset management business, we mainly compete with fund management companies, commercial banks, insurance companies and other financial institutions in the PRC in terms of brand recognition, investment research, products innovation, strength in customer base, marketing capability, capital base, pricing and track record for investment returns.

As we have presence in other parts of 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 which contribute to the gradual deregulation of the PRC securities industry, as well as the emphasis and expansion of the Internet-based securities services, more competitors will enter into or expand in the market. To compete effectively against traditional and new players in the industry, we need to maintain our competitive strengths, especially our ability to conduct new businesses. If we fail to maintain our competitive advantage, we may lose market share or experience a decrease in our revenue and profitability.

Business Lines and Product Mix

We are a full-service securities firm in the PRC. Our principal business lines include brokerage, investment banking, asset management and investment, credit transactions and proprietary trading businesses. Our brokerage business includes acting as agent to our customers in the trading in stocks, funds and bonds and providing other services, such as the sales of financial products, futures IB and investment advisory services. Our investment banking business includes the provision of equity financing, debt financing and financial advisory services by Hua Ying Securities to our clients. We also directly provide listing and referral services as chief agency broker to help companies enter into the NEEQ. Our asset management and investment business includes asset management and direct investment we conduct through Guolian Capital. Our proprietary trading business includes the trading of stocks, bonds and funds as well as derivatives for our own account with the objective of achieving investment gains. Our credit transactions business includes margin financing and securities lending, securities-backed lending and securities repurchase. 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 from time to time.

Our commission and fee income from the securities 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 securities brokerage business to increase and continue to be a major source of our revenue in the future, we also expect the revenue contribution from other products and services with relatively higher profit margins to increase, such as margin financing and securities lending, which we believe have faster growth potential than certain maturer businesses.

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.

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Our results of operations and financial condition can be affected by our ability to successfully offer new products and services, to attract new customers and counterparties and to make investments in new business and enterprises with substantial growth potential.

Regulatory Environment

Our business, results of operations and financial condition 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 certain businesses we may engage in or certain business models or fee structures we can adopt.

The regulatory regime of the PRC securities industry has been evolving, and as the industry continues to mature, the CSRC and other regulatory authorities are continuing to gradually easing the regulations governing the PRC securities industry and broadening the scope of new products and services that securities firms can offer. For example, since 2008, the CSRC launched several pilot programs, including direct investment, stock index futures, margin financing and securities lending, securities-backed lending as well as the NEEQ to expand the products and services that securities firms can offer to their customers. The CSRC has been encouraging securities firms to diversify their products and services 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 from the existing approval-based system. We believe the new products and services which the CSRC may approve in the future 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 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. In April 2014, the CSRC and the SFC established the Shanghai-Hong Kong Stock Connect to enhance capital market connectivity between the PRC and Hong Kong and expand cross-border investment channels. This may bring new business opportunities for PRC securities firms.

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 2012, 2013

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and 2014, our average securities brokerage commission rate was 0.102%, 0.092% and 0.074%, respectively. The securities brokerage commission rate we charge is subject to the competitive pressure in the regions in which we operate, including Jiangsu province and Wuxi. In March 2013, the CSRC issued the Supervisory Provisions on Branches of Securities Companies (《證券公司分支機構監管規定》), which removed the limitations on the number of branches PRC securities firms can establish. See “Risk Factors—Risks Relating to Our Business and Industry—We generate a significant portion of our revenue from our securities brokerage business. If we fail to sustain our brokerage commissions and fees, our results of operations and financial condition could be materially and adversely affected.” 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.

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 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 service is recognized on the date of the transaction;
- Underwriting and sponsors fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- Investment consultancy and financial advisory fee income is recognized when the relevant transactions have been arranged or the relevant services have been rendered; and
- Fee revenue from asset management services is recognized according to the provisions of the asset management contract.

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

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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; and (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, held-to-maturity financial assets 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. Equity securities, funds and debt securities purchased for the purpose of selling in the near term are classified as financial assets held for trading. Equity securities, funds and debt securities may be designated at fair value through profit or loss upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- (ii) the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with our Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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- (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39—Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be 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 statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in the 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 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.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that our management has the positive intention and ability to hold to maturity. If we were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Held-to-maturity financial assets are recognized initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets, and are subsequently measured at amortized cost using effective interest rate method.

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.

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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 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 liabilities at fair value through profit or loss are recognized in profit or loss through net investment gains or losses.

The interests of both subordinated interest holders of classified collective asset management schemes and holders of non-classified collective asset management schemes within our Group's consolidation scope were designated at fair value through profit or loss.

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. Transaction costs and fees of other financial liabilities are included in calculating amortized cost using the effective interest method.

Our Group's other financial liabilities mainly comprise "Bonds in issue," "Due to other financial institutions," "Accounts payable to brokerage clients," "Financial assets sold under repurchase agreements" and "Other current liabilities" in the statement of financial position. Other financial liabilities are classified as current liabilities unless we have an unconditional right to defer settlement of the liabilities for at least 12 months after the end of the reporting period.

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

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knowledgeable and 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 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 using effective interest rate method.

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 repurchase 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 at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

Financial assets carried at amortized cost

We assess at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is

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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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of us about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) our Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; and
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

We first assess whether objective evidence of impairment exists individually for financial assets that are individually significant and then collectively assesses financial assets that are not individually significant. We perform a collective assessment for individually assessed financial assets with no objective evidence indicating impairment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, 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 through the use of an impairment allowance account and the amount of loss is recognized in income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for acquiring and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to

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reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by us to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed and the amount of loss is determined. Subsequent recoveries of amounts previously written off are recognized in income statement against impairment losses on assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the income statement.

Available-for-sale financial assets

Objective evidence that a debt instrument is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- (i) significant financial difficulty of the borrower or issuer;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) we, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that we would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (v) disappearance of an active market for financial assets because of significant financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including, adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group; and
- (vii) other objective evidence indicating there is an impairment of the financial asset.

A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale indicates there is objective evidence that the equity instrument is impaired. We assess the fair value of available-for-sale equity instruments individually at 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 or the fair value has been lower than its initial cost for

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more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, we recognize impairment losses in profit or losses if we conclude this decline is prolonged and expected to last for more than one year based on professional judgment of our research department and business department.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized 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, in a subsequent period, the fair value of an impaired 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 the profit or loss, the impairment loss is reversed through profit or loss. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value subsequent to impairment are recognized as other comprehensive income.

Offsetting financial instruments

Financial assets and financial liabilities are separately presented in the statement of financial position without any offsetting, except when:

- (i) we have a legally enforceable right to offset the recognized amounts; and
- (ii) we have intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Consolidation—Structured Entity

A subsidiary is an entity (including a structured entity) over which our Group have control. We control an entity when our Group is exposed to, or has rights to, variable returns from our involvement with the entity and has the ability to affect those returns through our power over the entity. Subsidiaries are consolidated from the date on which control is transferred to our 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: (i) restricted activities; (ii) 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; (iii) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (iv) 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

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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 we are 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" for details of certain of our asset management schemes that are included for consolidation purposes.

Significant Accounting Estimates and Judgments

We continually evaluate 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.

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.

Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in active markets is 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 categorized 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 I 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). |

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The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

| 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 assets at fair value through profit or loss—Debt securities | Level III ⁽¹⁾ | Discounted cash flow 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 | <ul style="list-style-type: none"> ● Expected future cash flows ● Expected recovery date ● Discount rates that correspond to the expected risk level | <ul style="list-style-type: none"> ● The higher the future cash flows, the higher the fair value ● The earlier the maturity date, the higher the fair value ● The lower the discount rate, the higher the fair value |
| Financial liabilities designated at fair value through profit or loss | Level III | 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 | <ul style="list-style-type: none"> ● Expected future cash flows ● Expected payment date ● Discount rates that correspond to the expected risk level | <ul style="list-style-type: none"> ● The higher the future cash flows, the higher the fair value ● The earlier the payment date, the higher the fair value ● The lower the discount rate, the higher the fair value |
| Available-for-sale financial assets (trust schemes) | Level III | 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 | <ul style="list-style-type: none"> ● Expected future cash flows ● Expected recovery date ● Discount rates that correspond to the expected risk level | <ul style="list-style-type: none"> ● The higher the future cash flows, the higher the fair value ● The earlier the recovery date, the higher the fair value ● The lower the discount rate, the higher the fair value |

Note:

(1) Represents SME private placement bonds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchanges. As the trading of SME private placement bonds had been inactive with limited observable market data during the Track Record Period, they were classified to Level III of the fair value hierarchy.

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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 |
|--|----------------------|---|---|---|
| Available for sale financial assets (collective asset management schemes) | Level III | 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 | <ul style="list-style-type: none"> ● Expected future cash flows ● Expected recovery date ● Discount rates that correspond to the expected risk level | <ul style="list-style-type: none"> ● The higher the future cash flows, the higher the fair value ● The earlier the recovery date, the higher the fair value ● The lower the discount rate, the higher the fair value |
| Available-for-sale financial assets (equity investments in unlisted companies) | Level III | We acquired the investment within one year as at the respective period end. Fair value was determined by reference to the transaction price of the equity instrument | <ul style="list-style-type: none"> ● N/A | <ul style="list-style-type: none"> ● N/A |

Income taxes

We are subject to income taxes in numerous jurisdictions. 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 reassesses whether or not we control an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Based on their judgment, the directors of we have assessed the combination of the three elements listed above and concluded that the structured entities with the following features are controlled by our Group and should be included for consolidation:

A classified asset management scheme comprises two unit classes where the external investors hold the lower risk units that generate an expected rate of return, while our Group holds the entirety of the higher risk units that enjoy the residue interests of the asset management scheme. The holder of the

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higher risk units provides credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. Our Group has the power to manage the scheme. The external investors cannot remove our Group from its role as the asset manager without course. Moreover, our Group cannot withdraw its holdings within the operating period of the scheme. It is concluded that our Group is a principal of the schemes with the above features since inception.

A classified asset management scheme comprises two unit classes where our Group holds a part of the higher risk units and possibly a part of the lower risk units. The lower risk units generate an expected rate of return and the higher risk units enjoy the residue interests of the asset management scheme. The holders of the higher risk units provide credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. Our Group has the power to manage the scheme. The external investors cannot remove our Group from its role as the asset manager without course. Moreover, our Group cannot withdraw its holding in the higher risk units within the operating period of the scheme. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by our Group, it is concluded that our Group is a principal of the scheme if our Group's exposure to the variable return is significant.

A non-classified asset management scheme comprises a single unit class where our Group holds a part of the units. Our Group has the power to manage the scheme. The external investors cannot remove our Group from its role as the asset manager without course. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by our Group, it is concluded that our Group is a principal of the scheme if our Group's exposure to the variable return is significant.

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.

Commission and Fee Income

Our commission and fee income mainly consists of the following:

- (i) commission and fee income on securities brokerage;
- (ii) underwriting commission and sponsors fees;
- (iii) investment consultancy and financial advisory fees; and
- (iv) asset management fees.

We generate commission and fee income on securities brokerage by trading securities and futures on behalf of our customers.

We generate underwriting commission and sponsors fees and investment consultancy and financial advisory fees in equity and debt financing, financial advisory services provided by our majority-owned subsidiary, Hua Ying Securities, as well as the provision of listing and referral services as chief agency broker to help clients enter into the NEEQ.

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We also generate investment consultancy and financial advisory fees in our brokerage business by providing investment advisory services, including securities and securities-related investment advisory services.

In addition, we generate management and performance fees in our asset management business by managing our customers' asset portfolios.

Interest Income

Our interest income primarily includes: (i) interest income from our own deposits and deposits we hold on behalf of our customers with banks; (ii) interest income from margin financing and securities lending; and (iii) interest income from financial assets held under resale agreements, including securities-backed lending and securities repurchase transactions.

Net Investment Gains

Our net investment gains primarily include (i) net gains from available-for-sale financial assets; (ii) net gains from financial assets at fair value through profit or loss; (iii) net losses from financial liabilities at fair value through profit or loss; and (iv) net gains from derivatives.

Our net investment gains from available-for-sale financial assets consist of (i) net gains or losses from disposal of available-for-sale financial assets; and (ii) dividends and interest income from available-for-sale financial assets in our proprietary trading and asset management businesses.

Our net investment gains from financial assets at fair value through profit or loss 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 losses from financial liabilities at fair value through profit or loss consist of (i) changes in fair value of these financial liabilities; and (ii) dividends distributed to interest holders of the consolidated structured entities.

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

Our other income primarily includes rental income, which is primarily derived from our leasing and sub-leasing of our owned or rented premises, and individual income tax return, which is generally the income tax refund issued by the PRC tax authorities to us for the individual income tax we paid on behalf of certain of our employees. Our other income and gains also include government grants, which we receive for supporting our business operations. Our government grants are non-recurring in nature and we cannot assure you we will be able to continue to receive them in the future.

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Total Expenses

Our total expenses include mainly commission and fee expenses, interest expenses, staff costs, depreciation and amortization, and other operating expenses. Historically, staff costs have been the largest component of our 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, including commissions we pay to other financial institutions for distribution of equity and debt securities we underwrite in our investment banking business.

Interest Expenses

Our interest expenses primarily include (i) interest expenses for the outstanding subordinated corporate bonds we issued; (ii) interest expenses on deposits we hold on behalf of our customers; (iii) interest expenses from financial assets sold under repurchase agreements; and (iv) interest expenses due to other financial institutions.

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.

To increase our leverage ratio and improve yields on our bond investments, we enter into short-term repurchase agreements with counterparties (such as banks and other financial institutions), under which we incur interest expenses by selling our bond investments to such counterparties and agreeing to repurchase such assets at predetermined prices on the maturity date of the repurchase agreements. Please see the “—Liquidity and Capital Resources—Assets and Liabilities—Current Assets and Liabilities.”

Staff Costs

Our staff costs primarily include salaries, bonuses 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 38.1%, 33.8% and 31.7% of our total expenses in 2012, 2013 and 2014, respectively.

Depreciation and Amortization

Our depreciation and amortization relates primarily to depreciation of our property, plant and equipment and amortization of our intangible assets and long-term prepaid expenses.

Other Operating Expenses

Our other operating expenses primarily include rentals, business tax and surcharges, office expenses, travelling expenses, marketing and distribution expenses and other miscellaneous expenses.

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Operating Profit

Operating profit is calculated as our total revenue less total expenses.

Share of Profit of Investments in Associates

Our share of profit of investments in associates primarily includes the share of the profit we are entitled to receive from our three principal associates in which we invested, Zhonghai Fund, Lingxiang Fund and Wuxi Taihu Yangshan Peach Technology Co., Ltd.

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 29.4%, 26.0% and 24.2% in 2012, 2013 and 2014, respectively. 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.

RESULTS OF OPERATIONS

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

| | Year ended December 31, | | |
|---|-------------------------|----------------|------------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Revenue | | | |
| — Commission and fee income | 514.8 | 713.5 | 1,079.8 |
| — Interest income | 150.8 | 205.1 | 374.8 |
| — Net investment gains | 98.5 | 155.2 | 665.9 |
| | 764.1 | 1,073.8 | 2,120.5 |
| Other income | 8.3 | 5.7 | 11.1 |
| Total revenue and other income | 772.4 | 1,079.5 | 2,131.6 |
| Commission and fee expenses | (101.4) | (97.2) | (269.1) |
| Interest expenses | (64.8) | (107.5) | (203.1) |
| Staff costs | (273.3) | (250.0) | (375.1) |
| Depreciation and amortization | (51.4) | (50.4) | (43.1) |
| Other operating expenses | (226.0) | (236.5) | (294.1) |
| Impairment (losses)/reversal | (1.0) | 1.8 | (0.3) |
| Total expenses | (717.9) | (739.8) | (1,184.8) |
| Share of profit of investments in associates | 11.5 | 11.2 | 16.3 |
| Profit before income tax | 66.0 | 350.9 | 963.1 |
| Income tax expense | (19.4) | (91.1) | (232.7) |
| Profit for the year from continuing operations | 46.6 | 259.8 | 730.4 |
| Profit for the year from discontinuing operations | 45.5 | 13.0 | — |
| Profit for the year | 92.1 | 272.8 | 730.4 |

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The following discussion compares the major components of our operating results in 2012, 2013 and 2014.

Revenue and Other Income

| | Year ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Revenue | | | |
| Commission and fee income | 514.8 | 713.5 | 1,079.8 |
| Interest income | 150.8 | 205.1 | 374.8 |
| Net investment gains | 98.5 | 155.2 | 665.9 |
| | 764.1 | 1,073.8 | 2,120.5 |
| Other income | 8.3 | 5.7 | 11.1 |
| Total revenue and other income | <u>772.4</u> | <u>1,079.5</u> | <u>2,131.6</u> |

Comparisons between 2014 and 2013

Our revenue and other income increased by 97.5% to RMB2,131.6 million in 2014 compared to RMB1,079.5 million in 2013, due primarily to increases in our commission and fee income, interest income and net investment gains. These increases were in line with our strategy to maintain the steady growth of our securities brokerage and investment banking businesses, while offering additional value-added brokerage services, such as the sales of financial products, and expanding our margin financing and securities lending and proprietary trading businesses, as well as increasing the scale of our investment in our self-developed collective asset management schemes.

Comparisons between 2013 and 2012

Our revenue and other income increased by 39.8% to RMB1,079.5 million in 2013 compared to RMB772.4 million in 2012, due primarily to an increase of RMB198.7 million of commission and fee income and an increase of our net investment gains of RMB56.7 million in 2013 compared to 2012. We took advantage of more active trading in the PRC securities market in 2013 and also increased our proprietary trading investments. In addition, we were able to expand our margin financing and securities lending business after it was launched in July 2012.

Commission and Fee Income

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

| | Year ended December 31, | | |
|---|-------------------------|--------------|----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Securities brokerage | 412.8 | 573.3 | 754.3 |
| Underwriting and sponsorship | 79.9 | 83.4 | 268.6 |
| Investment consultancy and financial advisory | 14.7 | 40.8 | 25.4 |
| Asset management | 7.4 | 16.0 | 31.5 |
| Total | <u>514.8</u> | <u>713.5</u> | <u>1,079.8</u> |

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Comparisons between 2014 and 2013

Our commission and fee income increased by 51.3% to RMB1,079.8 million in 2014 compared to RMB713.5 million in 2013, due primarily to the increases in our underwriting and sponsors fees and commission and fee income on securities brokerage, partially offset by a decrease in our investment consultancy and financial advisory fee .

Our commission and fee income on securities brokerage increased by 31.6% to RMB754.3 million in 2014 compared to RMB573.3 million in 2013, due primarily to (i) the increased brokerage trading volume of stocks and funds resulting from more active stock trading in the PRC stock market, as a result of which (A) our trading volume of stocks and funds increased by 59.6% from RMB520.4 billion in 2013 to RMB830.3 billion in 2014, and (B) the increase in our trading volume of stocks and funds was offset by a decline in the average securities brokerage commission rate, which decreased from 0.092% in 2013 to 0.074% in 2014 primarily due to increased market competition as well as the introduction of other alternative trading systems, in particular, the prevalence and proliferation of online trading businesses, and (ii) our increased offering of value-added services in 2014. Our underwriting and sponsors fees increased by 222.1% to RMB268.6 million in 2014 compared to RMB83.4 million in 2013, due primarily to our increased underwritten amount in 2014, particularly equity and debt financing. Total equity and debt financing we underwrote increased by 366.7% and 53.4%, respectively, to RMB4.2 billion and RMB8.9 billion in 2014, respectively, compared to RMB0.9 billion and RMB4.7 billion in 2013, respectively.

In addition, our asset management fees also increased due to the expansion of our asset management businesses in 2014 as we introduced new self-development asset management products.

Comparisons between 2013 and 2012

Our commission and fee income increased by 38.6% to RMB713.5 million in 2013 compared to RMB514.8 million in 2012, due primarily to an increase in our commission and fee income on securities brokerage and our investment consultancy and financial advisory fees from our investment banking business.

Our commission and fee income on securities brokerage increased by 38.9% to RMB573.3 million in 2013 compared to RMB412.8 million in 2012, due primarily to our increased trading volume of stocks and funds, resulting from more active stock trading in the PRC stock market in 2013 and an increase in the number of securities branches we operated in Jiangsu province and elsewhere in China, which have expanded our customer base. Our brokerage trading volume of stocks and funds increased by 49.3% to RMB520.4 billion in 2013 compared to RMB348.6 billion in 2012. We also had an increase in commission and fee income from securities brokerage from RMB2.7 million in 2012 to RMB10.8 million in 2013 in connection with the sales of our self-developed asset management products and sales of third-party financial products on a commission basis, primarily because we obtained the qualification to sell more third-party financial products on commission basis, including trust products, which contributed to the further expansion of this business.

Our underwriting and sponsors fees, investment consultancy and financial advisory fees and asset management fees also increased by 4.4%, 177.6% and 116.2%, respectively, in 2013, due primarily to the growth in our debt financing, financial advisory and asset management businesses.

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Interest Income

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

| | Year ended December 31, | | |
|--|-------------------------|-------|-------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Interest income from bank deposits | 146.7 | 131.7 | 166.7 |
| Interest income from margin financing and securities lending | 4.1 | 63.4 | 171.4 |
| Interest income from financial assets held under resale agreements | — | 10.0 | 36.7 |
| Total | 150.8 | 205.1 | 374.8 |

Comparisons between 2014 and 2013

Our interest income increased by 82.7% to RMB374.8 million in 2014 compared to RMB205.1 million in 2013, 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 RMB171.4 million in 2014 compared to RMB63.4 million in 2013, due primarily to the continued expansion of our margin financing activities in 2014. Our margin trading volume increased by 222.6% from RMB29,809.1 million in 2013 to RMB96,173.1 million in 2014. The number of margin financing and securities lending clients increased substantially from approximately 2,450 in 2013 to approximately 9,500 in 2014. In addition, our interest income from financial assets held under resale agreements increased to RMB36.7 million in 2014 compared to RMB10.0 million in 2013 due primarily to the expansion of our securities-backed lending and securities repurchase businesses in 2014.

Comparisons between 2013 and 2012

Our interest income increased by 36.0% to RMB205.1 million in 2013 compared to RMB150.8 million in 2012, due primarily to a substantial increase in our interest income from margin financing and securities lending, which increased from RMB4.1 million in 2012 to RMB63.4 million in 2013, primarily reflecting the rapid growth of our margin financing business in 2013 after we started our margin financing and securities lending business in July 2012. The number of our customers for margin financing and securities lending services increased from approximately 440 in 2012 to approximately 2,450 in 2013. The interest income from financial assets held under resale agreements was RMB10.0 million in 2013 compared to nil in 2012, primarily due to our offering of securities-backed lending and securities repurchase businesses in 2013. These increases were partially offset by a decrease in interest income from bank deposits from RMB146.7 million in 2012 to RMB131.7 million in 2013, due primarily to a decrease in bank deposits resulting from (i) the continued expansion of our margin financing and securities lending business; and (ii) a reduction in benchmark bank deposit interest rates in July 2012 as announced by the PBOC.

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Net Investment Gains

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

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|--------------|--------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| | (RMB in millions) | | |
| Realized gains/(losses) from disposal of available-for-sale financial assets | 11.2 | (8.8) | 99.9 |
| Dividends and interest income from available-for-sale financial assets | 2.0 | 6.1 | 7.6 |
| Realized gains from disposal of financial assets at fair value through profit or loss | 29.2 | 37.8 | 250.0 |
| Dividends distributed to interest holders of the consolidated structured entities | — | (26.5) | (107.6) |
| Dividends and interest income from financial assets at fair value through profit or loss | 30.6 | 140.1 | 294.4 |
| Interest income from held-to-maturity financial assets | — | — | 0.3 |
| Net realized (losses)/gains from derivative financial instruments | (2.1) | 0.0 | (3.5) |
| Unrealized fair value change of financial instruments at fair value through profit or loss — Financial assets at fair value through profit or loss | 33.7 | 29.5 | 163.2 |
| — Derivative financial instruments | (6.1) | 6.1 | (2.1) |
| — Financial liabilities at fair value through profit or loss | — | (29.1) | (36.3) |
| Total | <u>98.5</u> | <u>155.2</u> | <u>665.9</u> |

Comparisons between 2014 and 2013

Our net investment gains increased significantly by 329.1% to RMB665.9 million in 2014 compared to RMB155.2 million in 2013, due primarily to the following reasons:

- an increase of RMB212.2 million in realized gains from disposal of financial assets at fair value through profit or loss, primarily due to an increase in gains from stocks and bond investments as a result of the recovery in the PRC stock and bond markets in 2014;
- an increase of RMB154.3 million in dividends and interest income from financial assets at fair value through profit or loss, primarily reflecting interest income we received from the debt securities;
- a RMB108.7 million increase in realized gains from the disposal of available-for-sale financial assets, which were mainly attributable to a higher return on our stock investments; and
- a RMB133.7 million increase in our unrealized fair value change of financial assets at fair value through profit or loss as compared to 2013, which were mainly attributable to our investments in stocks, bonds and investment funds.

Increases in our net investment gains were partially offset by (i) the dividends distributed to the interest holders of the consolidated structured entities of approximately RMB81.1 million, mainly due to increased dividend payments to the interest holders of our consolidated structured entities as a result of an increase in the scale of their investments in such entities and of the fact that we consolidated additional structured entities in 2014 compared to 2013; and (ii) changes in financial liabilities at fair value through profit or loss of RMB7.2 million, which was the undistributed dividends to interest holders of our consolidated structured entities.

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Comparisons between 2013 and 2012

Our net investment gains increased by 57.6% to RMB155.2 million in 2013 compared to RMB98.5 million in 2012, due primarily to the combination of the following reasons:

- an increase of RMB109.5 million in dividends and interest income from financial assets at fair value through profit or loss, primarily reflecting interest income we received from the debt securities in 2013;
- an increase of RMB8.6 million in realized gains from disposal of financial assets at fair value through profit or loss, mainly attributable to the increase of investment returns in stocks and fund investments; and
- an increase of RMB4.1 million in dividends and interest income from available-for-sale financial assets, mainly attributable to our increased investment in stocks and investment funds.

Increases in our net investment gains were partially offset by (i) changes in financial liabilities at fair value through profit or loss of RMB29.1 million, which were the undistributed dividends to interest holders of our consolidated structured entities; (ii) RMB26.5 million in dividends distributed to interest holders of the consolidated structured entities; (iii) RMB20.0 million in realized loss from the disposal of available-for-sale financial assets, mainly attributable to losses from our investment in unconsolidated self-developed collective asset management schemes; and (iv) RMB4.2 million decrease in our unrealized fair value change of financial assets at fair value through profit or loss compared to 2012, which was mainly attributable to a decrease in the fair value of our investments in stocks, bonds and investment funds.

Other Income

Comparisons between 2014 and 2013

Our other income increased by 94.7% to RMB11.1 million in 2014 compared to RMB5.7 million in 2013, due primarily to gains from disposal of certain fixed assets.

Comparisons between 2013 and 2012

Our other income and gains decreased by 31.3% to RMB5.7 million in 2013 compared to RMB8.3 million in 2012, due primarily to a RMB5.0 million one-time grant from the provincial government of Jiangsu province to Hua Ying Securities in 2012, partially offset by an increase of RMB1.8 million in rental income in 2013 due mainly to the implementation of our initiative to convert certain traditional branches to “light branches” and to reduce the existing office spaces of certain of our branches, which resulted in excess office spaces that we subsequently sublet to tenants.

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Total Expenses

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

| | Year ended December 31, | | |
|-------------------------------------|-------------------------|--------------|----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Commission and fee expenses | 101.4 | 97.2 | 269.1 |
| Interest expenses | 64.8 | 107.5 | 203.1 |
| Staff costs | 273.3 | 250.0 | 375.1 |
| Depreciation and amortization | 51.4 | 50.4 | 43.1 |
| Other operating expenses | 226.0 | 236.5 | 294.1 |
| Impairment losses/(reversal) | 1.0 | (1.8) | 0.3 |
| Total expenses | 717.9 | 739.8 | 1,184.8 |

Comparisons between 2014 and 2013

Our total expenses increased by 60.2% to RMB1,184.8 million in 2014 compared to RMB739.8 million in 2013, due primarily to increases in commission and fee expenses, interest expenses, staff costs and other operating expenses, partially offset by a decrease in depreciation and amortization.

Comparisons between 2013 and 2012

Our total expenses increased 3.1% to RMB739.8 million in 2013 compared to RMB717.9 million in 2012, due primarily to increases in our interest expenses and other operating expenses, partially offset by decreases in our commission and fee expenses and staff costs.

Commission and Fee Expenses

Comparisons between 2014 and 2013

Our commission and fees expenses increased by 176.9% to RMB269.1 million in 2014 compared to RMB97.2 million in 2013, due primarily to (i) an increase in commission and fee expenses associated with our investment banking business as a result of a significant increase in the amount of equity financing we underwrote in 2014; and (ii) an increase in commission and fee expenses relating to our securities brokerage business, which experienced an increase in our brokerage trading volume in 2014.

Comparisons between 2013 and 2012

Our commission and fees expenses decreased by 4.1% to RMB97.2 million in 2013 compared to RMB101.4 million in 2012, due primarily to a decrease in our underwriting and sponsorship distribution expenses in 2013.

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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, | | |
|---|-------------------------|--------------|--------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Interest expense of bonds in issue | 41.1 | 41.0 | 64.8 |
| Interest expense of accounts payable to brokerage clients | 21.3 | 14.6 | 17.7 |
| Interest expense of financial assets sold under repurchase agreements | 2.2 | 47.5 | 86.1 |
| Interest expense of due to other financial institutions | 0.2 | 4.4 | 34.5 |
| Total | <u>64.8</u> | <u>107.5</u> | <u>203.1</u> |

Comparisons between 2014 and 2013

Our interest expenses increased by 88.9% to RMB203.1 million in 2014 compared to RMB107.5 million in 2013, due primarily to (i) a RMB38.6 million increase in interest expense of financial assets sold under repurchase agreements as a result of our increased liquidity management activities in 2014; (ii) an increase of RMB30.1 million of interest expense of due to other financial institutions due to interests paid on the loans we obtained from and affiliate of Guolian Group, the Bank of Nanjing and China Securities Finance; and (iii) an increase of RMB23.8 million of interest expense of bonds in issue compared to 2013, mainly due to additional subordinated corporate bonds we issued in 2014.

Comparisons between 2013 and 2012

Our interest expenses increased by 65.9% to RMB107.5 million in 2013 compared to RMB64.8 million in 2012, due primarily to a substantial increase in our interest expenses on financial assets sold under repurchase agreements as a result of our liquidity management measures. This increase was partially offset by a decrease in our interest expenses on accounts payable to brokerage clients, mainly due to a reduction in bank deposit interest rates.

Staff Costs

Comparisons between 2014 and 2013

Our staff costs increased by 50.0% to RMB375.1 million in 2014 compared to RMB250.0 million in 2013, due primarily to increases in salaries and bonuses we paid to our employees in line with our increased revenue and profit in 2014.

Comparisons between 2013 and 2012

Our staff costs decreased by 8.5% to RMB250.0 million in 2013 compared to RMB273.3 million in 2012, due primarily to a decrease in employee salaries and bonuses as a result of company-wide remuneration adjustment for the employees of Hua Ying Securities in 2013.

Depreciation and Amortization

Comparisons between 2014 and 2013

Our depreciation and amortization decreased by 14.5% to RMB43.1 million in 2014 compared to RMB50.4 million in 2013, mainly because we have designated the useful lives of certain fixed

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assets and the amortization term of the long-term prepaid expenses pursuant to our accounting policy, and we have continued to use these assets after they reached the end of their useful lives and the amortization term, as applicable.

Comparisons between 2013 and 2012

Our depreciation and amortization decreased by 1.9% to RMB50.4 million in 2013 compared to RMB51.4 million in 2012, mainly because we have designated the useful lives of certain fixed assets and the amortization term of the long-term prepaid expenses pursuant to our accounting policy, and we have continued to use these assets after they reached the end of their useful lives and the amortization term, as applicable.

Other Operating Expenses

Comparisons between 2014 and 2013

Our other operating expenses increased by 24.4% to RMB294.1 million in 2014 compared to RMB236.5 million in 2013, due primarily to an increase in business tax and surcharges in line with our increased revenue and profit in 2014.

Comparisons between 2013 and 2012

Our other operating expenses increased by 4.6% to RMB236.5 million in 2013 compared to RMB226.0 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, partially offset by a decrease in our office expenses as a result of improved operating efficiency.

Profit before Income Tax

Comparisons between 2014 and 2013

Our profit before income tax increased by 174.5% to RMB963.1 million in 2014 compared to RMB350.9 million in 2013.

Comparisons between 2013 and 2012

Our profit before income tax increased by 431.7% to RMB350.9 million in 2013 compared to RMB66.0 million in 2012.

Income Tax Expense

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

| | <u>Year ended December 31,</u> | | |
|--------------------------------|---------------------------------------|-------------|-------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| | (RMB in millions, except percentages) | | |
| Profit before income tax | 66.0 | 350.9 | 963.1 |
| Income tax expense | (19.4) | (91.1) | (232.7) |
| Effective tax rate | 29.4% | 26.0% | 24.2% |

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Comparisons between 2014 and 2013

Our income tax expense increased by 155.4% to RMB232.7 million in 2014 compared to RMB91.1 million in 2013, due primarily to the increase in our taxable income. Our effective tax rate decreased to 24.2% in 2014 compared to 26.0% in 2013, mainly because non-deductible costs, expenses and losses decreased in 2014.

Comparisons between 2013 and 2012

Our income tax expense increased by 369.6% to RMB91.1 million in 2013 compared to RMB19.4 million in 2012, due primarily to the increase in our taxable income. Our effective tax rate decreased to 26.0% in 2013 compared to 29.4% in 2012, due primarily to the reconciliation for the income tax expenses of Hua Ying Securities by using the losses from the unrecognized deferred income tax assets for the previous year.

Profit for the Year and Net Margin

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

| | Year ended December 31, | | |
|---|---------------------------------------|-------|-------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions, except percentages) | | |
| Operating profit ⁽¹⁾ | 46.2 | 334.0 | 935.7 |
| Operating margin ⁽²⁾ | 6.0% | 31.1% | 44.1% |
| Adjusted operating margin ⁽³⁾ | 7.7% | 38.4% | 56.8% |
| Profit for the year | 92.1 | 272.8 | 730.4 |
| Net margin ⁽⁴⁾ | 12.1% | 25.4% | 34.4% |
| Adjusted net margin ⁽⁵⁾ | 15.4% | 31.4% | 44.3% |
| Return on average equity ⁽⁶⁾ | 3.2% | 8.8% | 19.6% |
| Return on average total assets ⁽⁷⁾ | 1.0% | 2.5% | 4.4% |

Notes:

- (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). 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.
- (6) Calculated by dividing the profit attributable to our Shareholders of the current year by the average equity balance attributable to our Shareholders as of the end of the previous year and as of end of the current year.
- (7) Calculated by dividing the profit attributable to our Shareholders of the current year by the average assets balance as of the end of the previous year and as of end of the current year.

Comparisons between 2014 and 2013

Our profit for the year increased by 167.7% to RMB730.4 million in 2014 compared to RMB272.8 million in 2013. This was due primarily to (i) substantial improvements in our investment gains from our proprietary trading, asset management and investment businesses resulting from our prudent investment allocation strategy; (ii) increases in our commission and fee income from our

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securities brokerage due to increased scale of our securities brokerage business, and in investment banking businesses as a result of the underwriting of shares, additional issuance of shares and the increased debt financing; and (iii) an increase in interest income from our credit transactions business as a result of the rapid growth of our margin financing and securities lending business. Our operating margin and net margin increased in 2014, due mainly to (i) improvement in our proprietary trading and asset management and investment businesses with high operating margin; (ii) enhanced profitability to our securities brokerage business as we continued to implement measures to contain operating cost, such as the expanded use of our Internet trading services platform; (iii) the increased growth and profitability of our investment banking business; and (iv) the expansion of our credit transactions business in 2014. Our return on average equity increased to 19.6% in 2014 compared to 8.8% in 2013, and our return on average total assets increased to 4.4% in 2014 compared to 2.5% in 2013, which primarily reflected an increase in our net profit from investment banking, asset management and investment, proprietary trading and credit transactions businesses.

Comparisons between 2013 and 2012

Our profit for the year increased by 196.2% to RMB272.8 million in 2013 compared to RMB92.1 million in 2012, due primarily to (i) the increase in our commission and fee income from our securities brokerage business which resulted from more active trading in the PRC stock market in 2013 and the expansion of our branch network in Jiangsu province and elsewhere in China; and (ii) the increase in interest income from our margin financing and securities lending business as a result of full-scale expansion of this business after it was launched in 2012. Our operating margin and net margin increased substantially in 2013, due primarily to (i) the significant improvement in our proprietary trading business with a high operating margin; (ii) the expansion of margin financing and securities lending business in 2013; (iii) improved profitability of our securities brokerage business as we enjoyed economy of scale due to rapid growth of such business in 2013; and (iv) the growth and profitability of our investment advisory business. Our return on average equity increased to 8.8% in 2013 compared to 3.2% in 2012, and our return on average total assets increased to 2.5% in 2013 compared to 1.0% in 2012, which primarily reflected an increase in our net profit from credit transactions, securities brokerage and investment banking businesses.

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) asset management and investment; (iv) credit transactions; and (v) proprietary trading. We also report financial results for our five business lines and classify them into six segments: (i) securities brokerage; (ii) credit transactions; (iii) investment banking; (iv) proprietary trading; (v) asset management and investment; and (vi) others. We report financial results for our brokerage business (including securities brokerage and other services) in securities brokerage segment. In addition, the financial results for our credit transactions segment mainly include the interest income generated in our margin financing and securities lending, securities-backed lending and securities repurchase businesses conducted by us. As for investment banking segment, its financial results were generated in equity financing, debt financing and financial advisory services provided by Hua Ying Securities, and the results generated from the listing and referral services provided directly by us to help clients enter into the NEEQ. As for our proprietary trading segment, its financial results are mainly generated from the trading of stocks, bonds and funds as well as derivatives for our own account. The financial results of our asset management

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and investment business mainly include income generated from our asset management business and asset investment business. Finally, the others segment primarily consists of (i) interest income from our own bank deposits; and (ii) investment gains we made as a result of the liquidity management measures conducted by our headquarters. The following discussions of our segment revenue and other income, segment expenses and segment results include our inter-segment revenue and inter-segment expenses.

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

| | Year ended December 31, | | | | | |
|---------------------------------------|-------------------------|--------------|----------------------|--------------|----------------------|--------------|
| | 2012 | | 2013 | | 2014 | |
| | (RMB in millions) | % | (RMB in millions) | % | (RMB in millions) | % |
| Securities brokerage | 501.2 | 64.9 | 678.0 | 62.8 | 856.4 | 40.2 |
| Credit transactions | 4.2 | 0.5 | 67.5 | 6.3 | 204.4 | 9.6 |
| Investment banking | 165.4 | 21.4 | 144.1 | 13.3 | 363.7 | 17.1 |
| Proprietary trading | 49.0 | 6.3 | 160.5 | 14.9 | 462.9 | 21.7 |
| Asset management and investment | 21.9 | 2.8 | 13.0 | 1.2 | 221.6 | 10.4 |
| Others ⁽¹⁾ | 32.6 | 4.3 | 16.4 | 1.5 | 26.7 | 1.2 |
| Inter-segment elimination | (1.9) | (0.2) | — | — | (4.1) | (0.2) |
| Total | <u>772.4</u> | <u>100.0</u> | <u>1,079.5</u> | <u>100.0</u> | <u>2,131.6</u> | <u>100.0</u> |

Note:

(1) Includes (i) interest income from our own bank deposits; and (ii) investment gains we made as a result of the liquidity management measures conducted by our headquarters.

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

| | Year ended December 31, | | | | | |
|---------------------------------------|-------------------------|--------------|----------------------|--------------|----------------------|--------------|
| | 2012 | | 2013 | | 2014 | |
| | (RMB in millions) | % | (RMB in millions) | % | (RMB in millions) | % |
| Securities brokerage | (338.4) | 47.1 | (356.7) | 48.2 | (393.6) | 33.2 |
| Credit transactions | (1.8) | 0.3 | (10.0) | 1.4 | (43.8) | 3.7 |
| Investment banking | (189.6) | 26.4 | (140.3) | 19.0 | (303.1) | 25.6 |
| Proprietary trading | (6.7) | 0.9 | (50.2) | 6.8 | (65.4) | 5.5 |
| Asset management and investment | (9.9) | 1.4 | (21.7) | 2.9 | (46.7) | 3.9 |
| Others | (173.4) | 24.2 | (160.9) | 21.7 | (336.3) | 28.4 |
| Inter-segment elimination | 1.9 | (0.3) | — | — | 4.1 | (0.3) |
| Total | <u>(717.9)</u> | <u>100.0</u> | <u>(739.8)</u> | <u>100.0</u> | <u>(1,184.8)</u> | <u>100.0</u> |

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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, | | | | | |
|---------------------------------|-------------------------|--------------|----------------------|--------------|----------------------|--------------|
| | 2012 | | 2013 | | 2014 | |
| | (RMB in millions) | % | (RMB in millions) | % | (RMB in millions) | % |
| Securities brokerage | 162.8 | 298.7 | 321.3 | 94.6 | 462.8 | 48.9 |
| Credit transactions | 2.4 | 4.4 | 57.5 | 16.9 | 160.6 | 17.0 |
| Investment banking | (24.2) | (44.4) | 3.8 | 1.1 | 60.6 | 6.4 |
| Proprietary trading | 42.3 | 77.6 | 110.3 | 32.5 | 397.5 | 42.0 |
| Asset management and investment | 12.0 | 22.0 | (8.7) | (2.6) | 174.9 | 18.5 |
| Others | (140.8) | (258.3) | (144.5) | (42.5) | (309.6) | (32.8) |
| Inter-segment eliminations | — | — | — | — | — | — |
| Total | <u>54.5</u> | <u>100.0</u> | <u>339.7</u> | <u>100.0</u> | <u>946.8</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, | | |
|---------------------------------|-------------------------|-------------|-------------|
| | 2012 | 2013 | 2014 |
| | % | % | % |
| Securities brokerage | 32.5 | 47.4 | 54.0 |
| Credit transactions | 57.1 | 85.2 | 78.6 |
| Investment banking | (14.6) | 2.6 | 16.7 |
| Proprietary trading | 86.3 | 68.7 | 85.9 |
| Asset management and investment | 54.8 | (66.9) | 78.9 |
| Others ⁽¹⁾ | (431.9) | (881.1) | (1,159.6) |
| Inter-segment eliminations | N/A | N/A | N/A |
| Total⁽²⁾ | <u>7.1</u> | <u>31.5</u> | <u>44.4</u> |

Notes:

- (1) Our "Others" segment experienced significant losses during the Track Record Period primarily due to (i) a 49.7% decrease of segment revenue in 2013 compared to 2012 as a result of significant decrease in interest income as a substantial amount of self-owned assets were used in our margin financing and securities lending business; and (ii) a 109.0% increase in segment expenses from 2013 to 2014, which mainly include staff costs, interest expenses, depreciation and amortization, non-operating expenses and other expenses, primarily due to increases in our staff costs, interest expenses and other expenses in line with our business expansion.
- (2) Compared to our operating margins, our segment margins have included the effect of other income and gains. Our operating margin was 6.0%, 31.1%, 44.1% in 2012, 2013 and 2014, respectively.

Securities Brokerage

Segment revenue and other income from our securities brokerage business consists primarily of commission and fee income on securities brokerage, commission and fee income on financial advisory services provided by our headquarters, interest income from deposits held on the behalf of our brokerage clients, income from the sales of third-party financial products on a commission basis and income from the provision of futures IB services, as well as other gains mainly comprising rental

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income. Segment expenses consist primarily of commission and fee expenses, interest expenses, staff costs, amortization and depreciation, business tax and surcharges and other expenses.

Comparison between 2014 and 2013

Segment results of our securities brokerage business increased to RMB462.8 million in 2014 compared to RMB321.3 million in 2013, due primarily to a 26.3% increase in our segment revenue and other income from RMB678.0 million in 2013 to RMB856.4 million in 2014 as a result of an increase in our commission and fee income on securities brokerage business. The increase in our commission and fee income on securities brokerage business was primarily due to the significant increase in the brokerage trading volume that resulted from the implementation and expansion of our Internet trading services platform. Our average securities brokerage commission rate decreased to 0.074% in 2014 compared to 0.092% in 2013 due primarily to intense market competition as a result of proliferation of Internet trading business and online trading systems.

Segment expenses increased by 10.3% to RMB393.6 million in 2014 compared to RMB356.7 million in 2013, due primarily to (i) an increase in our brokerage and commission fee expenses in line with our increased brokerage trading volume in 2014; (ii) an increase in our interest expenses as we continued to expand our securities brokerage business resulting in increased interest payments on cash held for our brokerage clients; and (iii) an increase in staff costs as result of an increase in salaries and bonuses of our employees due to the expansion of our brokerage business.

Although our average securities brokerage commission rate decreased and segment expenses increased, the segment margin of our securities brokerage business increased to 54.0% in 2014 compared to 47.4% in 2013, mainly as a result of the economies of scale due to an increase in our brokerage trading volume.

Comparison between 2013 and 2012

Segment results of our securities brokerage business increased by 97.4% to RMB321.3 million in 2013 compared to RMB162.8 million in 2012, primarily due to a 35.3% increase in our segment revenue and other income from RMB501.2 million in 2012 to RMB678.0 million in 2013 as a result of an increase in our commission and fee income on securities brokerage business. The increase in our commission and fee income on securities brokerage business was primarily due to the increased brokerage trading volume that resulted from the expansion of our branch network in Wuxi in 2013 as we opened 10 new light branches. Our brokerage trading volume of stocks, bonds and funds increased by 49.2% to RMB521.9 billion in 2013 compared to RMB349.8 billion in 2012.

Segment expenses increased by 5.4% to RMB356.7 million in 2013 compared to RMB338.4 million in 2012, due primarily to (i) an increase in business tax and surcharges as a result of increased revenue and profit in 2013; (ii) an increase in other expenses primarily due to an increase in the number of branches we opened and operated in 2013; and (iii) an increase in our brokerage and commission fee expense in line with our increased brokerage trading volume in 2013, partially offset by a decrease in staff costs as a result of a decrease in salaries and bonuses of our employees as we adjusted our remuneration policy in 2013.

Although our average securities brokerage commission rate decreased and segment expenses increased, the segment margin of our securities brokerage business increased to 47.4% in 2013

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compared to 32.5% in 2012, as a result of the economies of scale due to a significant increase in our brokerage trading volume.

Credit Transactions

Segment revenue and other income from our credit transactions business consists primarily of interest income from margin loans and securities lent, securities-backed lending and securities repurchase. Segment expenses consist primarily of interest expense, staff costs, depreciation and amortization, business tax and surcharges and other expenses.

Comparison between 2014 and 2013

Segment results of our credit transactions business increased to RMB160.6 million in 2014 compared to RMB57.5 million in 2013, due primarily to the expansion of our margin financing and securities lending and securities-backed lending businesses. Segment expenses also increased from RMB10.0 million in 2013 to RMB43.8 million in 2014, which reflected the continued growth of our credit transactions business.

Comparison between 2013 and 2012

Segment results of our credit transactions business increased significantly to RMB57.5 million in 2013 compared to RMB2.4 million in 2012, primarily due to the substantial increase in interest income as a result of the rapid expansion of our margin financing and securities lending and securities-backed lending businesses in 2013. Segment expenses also increased from RMB1.8 million in 2012 to RMB10.0 million in 2013, which reflected the rapid growth of our credit transactions business.

Investment Banking

Segment revenue and other income from our investment banking business consists primarily of (i) underwriting commission and sponsors fees received from equity financing and debt financing as well as the financial advisory services provided through Hua Ying Securities; (ii) investment gains Hua Ying Securities made as a result of its liquidity management activities; (iii) interest income from Hua Ying Securities' bank deposits; and (iv) the income from the listing and referral services we provided directly to help clients enter into the NEEQ. Segment expenses consist primarily of salaries and bonuses we pay to our employees and sponsor representatives, commission and fee expenses, business tax and surcharges, depreciation and amortization, interest expense and other expenses.

Comparison between 2014 and 2013

Segment results of our investment banking business increased significantly to RMB60.6 million in 2014 compared to RMB3.8 million in 2013, due primarily to an increase by 152.4% in segment revenue from our investment banking business and other income from RMB144.1 million to RMB363.7 million as a result of a substantial increase in the amount of equity financing we underwrote in 2014. Segment expenses also increased by 116.0% from RMB140.3 million in 2013 to RMB303.1 million in 2014, which were in line with the expansion of our equity financing businesses, which resulted in a significant increase in our commission and fee expenses and an increase in the salaries and bonuses paid to our investment banking employees. As a

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result, the segment margin of our investment banking business increased to 16.7% in 2014 compared to 2.6% in 2013.

Comparison between 2013 and 2012

Segment results of our investment banking business was RMB3.8 million in 2013 compared to a loss of RMB24.2 million in 2012, due primarily to a 26.0% decrease in segment expenses, partially offset by a 12.9% decrease in segment revenue and other income:

- The decrease in the segment revenue and other income of our investment banking business was due primarily to a decrease of net investment gains and other gains. The net investment gains decreased to RMB19.4 million in 2013 compared to RMB46.4 million in 2012. The other gains decreased to RMB1.9 million in 2013 compared to RMB6.2 million in 2012. The decrease in segment revenue and other income was partially offset by an increase of RMB9.9 million in commission and fee income.
- The decrease in the segment expenses was primarily due to a decrease in staff costs and commission and fee expenses associated with our investment banking business.

Our investment banking business was at its preliminary stage of development in 2012. We incurred a substantial amount of staff costs and administrative expenses for building our professional team while generated a relatively small amount of commission and fee income during the year. As a result, we recorded a loss in this segment in 2012.

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 financial assets designated at fair value through profit or loss) and available-for-sale financial assets. The segment expenses consist primarily of interest expenses, staff costs, business tax and surcharges and other expenses.

Comparison between 2014 and 2013

Segment results of our proprietary trading business increased by 260.4% to RMB397.5 million in 2014 from RMB110.3 million in 2013, due primarily to a significant improvement in our net investment gains, partially offset by a significant increase in our segment expenses:

- Our segment revenue and other income increased from RMB160.5 million in 2013 to RMB462.9 million in 2014, due primarily to significant increases in the investment returns on our stock and fund trading, which resulted from a more prudent asset allocation strategy in our proprietary trading business and a more robust stock market in 2014. The average return on our investment in stocks and funds was 58.1% in 2014 compared to 11.6% in 2013.
- Our segment expenses increased significantly to RMB65.4 million in 2014 compared to RMB50.2 million in 2013, due primarily to increased business tax and surcharges in line with the expansion of our proprietary trading business.

As a result, the segment margin of our proprietary trading business increased to 85.9% in 2014 from 68.7% in 2013.

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Comparison between 2013 and 2012

Segment results of our proprietary trading business increased by 160.8% to RMB110.3 million in 2013 compared to RMB42.3 million in 2012, due primarily to a significant improvement in our net investment gains, partially offset by a significant increase in our segment expenses:

- Our segment revenue and other income increased from RMB49.0 million in 2012 to RMB160.5 million in 2013, which resulted from a significant increase in interest income on bonds due to increased proportion of our investments in bonds from a more prudent investment allocation strategy in our proprietary trading business, and a significant increase in the returns from our investments in stocks and funds. The average return on our stock and fund trading was 11.6% in 2013 compared to 1.2% in 2012. On the other hand, the average return on our bond trading was 3.3% in 2013 compared to 13.8% in 2012.
- Our segment expenses increased significantly to RMB50.2 million in 2013 compared to RMB6.7 million in 2012, due primarily to increased interest expense and business tax and surcharges in line with the enhanced liquidity management and the significant increase in the investment return.

As a result, the segment margin of our proprietary trading business decreased to 68.7% in 2013 compared to 86.3% in 2012.

Asset Management and Investment

Segment results in our asset management and investment business consist primarily of (i) asset management fees and performance fees from our asset management business; and (ii) interest income and gains from our investments in self-developed collective asset management schemes and from our equity-linked investments, such as investments in private companies and equity investment funds. Please see note 41 of the Accountant's Report in Appendix I to this prospectus. As we invested in higher risk units in the classified collective asset management schemes, we provided credit enhancement for the holders of the lower risk units by compensating them the shortage against expected rate of return within a limit up to the net asset value of the higher risk units. The compensations payable by us in the amounts of nil, RMB24.9 million and RMB0.3 million as of December 31, 2012, 2013 and 2014, respectively, were determined on the net asset value of different unit classes. Upon consolidation, such amounts of provision for compensation were deducted in arriving at net investment gains under segment revenue for the years ended December 31, 2012, 2013 and 2014 respectively. For the years ended December 31, 2012, 2013 and 2014, we paid nil, RMB3.0 million and RMB18.5 million, respectively, to holders of lower risk units of our classified collective asset management schemes, which were determined on a cash basis. Due to such collective asset management schemes' product cycles, actual cash paid were accounted for upon maturity of such schemes and might have experienced timing effect with the respective compensation payables recognized at the end of each reporting period. Segment expenses in this business consist primarily of staff costs, interest expenses, business tax and surcharges, commission and fee expenses and other expenses.

Comparison between 2014 and 2013

Segment results of our asset management and investment business were a profit of RMB174.9 million in 2014 compared to a loss of RMB8.7 million in 2013, due primarily to an increase in asset management fees we received in 2014 as a result of increased scale of our asset

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management business, which reflected in (i) an increase in AUM from RMB7,305.4 million in 2013 to RMB16,695.3 million in 2014; and (ii) an increase in investment gains from our investment in numerous self-developed collective asset management schemes in 2014. Segment expenses also increased by 115.2% from RMB21.7 million in 2013 to RMB46.7 million in 2014, primarily due to a significant increase in interest expenses and staff costs, which were in line with the expansion of our asset management business and investment.

Comparison between 2013 and 2012

Segment results of our asset management and investment business were a loss of RMB8.7 million in 2013 compared to a profit of RMB12.0 million in 2012, due primarily to a significant increase in the segment expenses of our asset management and investment business from RMB9.9 million in 2012 to RMB21.7 million in 2013, and a 40.6% decrease in segment revenue and other income from RMB21.9 million in 2012 to RMB13.0 million in 2013, due primarily to the following reasons:

- The increase in the segment expenses was mainly attributable to increased interest expense, staff costs and other expenses associated with the expansion of our asset management business.
- The decrease in the segment revenue and other income was mainly attributable to a loss of approximately RMB5.2 million we recorded in our direct investment business and losses from our investments in self-developed collective asset management schemes primarily due to a decrease in the market value of the fixed income assets under management resulting from a decline in the bond market in 2013, which caused their market value to fall below the expected return.

Others

Revenue and other income from others consists primarily of (i) interest income from our own bank deposits; and (ii) investment gains we made as a result of the liquidity management measures conducted by our headquarters. Segment expenses mainly include staff costs, interest expenses, depreciation and amortization, non-operating expenses and other expenses.

Given that our 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, assuming all other variables are held constant.

Comparison between 2014 and 2013

Our segment loss for others increased to RMB309.6 million in 2014 compared to RMB144.5 million in 2013, due primarily to a substantial increase in segment expense from RMB160.9 million in 2013 to RMB336.3 million in 2014, which was partially offset by an increase in segment revenue and other income from RMB16.4 million in 2013 to RMB26.7 million in 2014.

The increase in the segment revenue and other income was due primarily to an increase in investment gains and other income from our headquarters. The substantial increase in the segment expenses was primarily due to an increase in our staff costs, interest expenses and other expenses, which were in line with our business expansion.

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Comparison between 2013 and 2012

Our segment results were a loss of RMB144.5 million in 2013 compared to a loss of RMB140.8 million in 2012, due primarily to a decrease in segment revenue and other income from RMB32.6 million in 2012 to RMB16.4 million in 2013, which was partially offset by a 7.2%, or RMB12.5 million, decrease in the segment expenses:

- The decrease in the segment revenue and other income was due primarily to the significant decrease in the interest income as a substantial amount of self-owned assets were used in our margin financing and securities lending.
- The decrease in the segment expenses was primarily due to a decrease in other operating expenses, including office expenses, entertainment expenses and travel expenses, due primarily to administrative efficiency, which was partially offset by an increase in staff costs as a result of our business expansion.

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 and capital injection from our Shareholders. Beginning in 2011, we began issuing subordinated corporate bonds to finance our working capital needs. We also obtained a short-term bank loan in December 2013, which was subsequently repaid in January 2014. 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 regulatory risk control indicators, including Net Capital. These measures include stress testing on our overall liquidity and other financial indicators before we make any capital allocation and investments.

As of April 30, 2015, we had aggregate cash and cash equivalents of RMB1,801.8 million, consisting primarily of our cash and bank balances as well as our own clearing settlement funds. At the same time, we had outstanding subordinated corporate bonds of RMB3,000.0 million and six income certificates in an aggregate amount of RMB1,160.0 million. Please see “—Assets and Liabilities—Indebtedness.” In addition, to engage in the margin refinancing business, we began to obtain financing from China Securities Finance in 2013 and, as of April 30, 2015, the balance of our financing due to China Securities Finance amounted to RMB850.0 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;
- subordinated corporate bonds;
- short-term notes, if and when necessary; and
- borrowings from banks and other financial institutions, if and when necessary.

We do not anticipate any shortage 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

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activities, and proceeds from subordinated 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 Joint Sponsors have 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.

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, | | |
|--|-------------------------|-----------|---------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Net cash outflow from operating activities | (112.5) | (1,377.3) | (841.3) |
| Net cash (outflow)/inflow from investing activities | (110.7) | 148.9 | (205.4) |
| Net cash (outflow)/ inflow from financing activities | (86.1) | (71.0) | 1,675.2 |
| Net (decrease)/increase in cash and cash equivalents | (309.3) | (1,299.4) | 628.5 |
| Cash and cash equivalents at beginning of the year | 2,452.8 | 2,143.5 | 843.8 |
| Effect of foreign exchange rate changes | — | (0.3) | — |
| Cash and cash equivalents at end of the year | 2,143.5 | 843.8 | 1,472.3 |

Net Cash Flows from Operating Activities

Our cash flows from operating activities consist primarily of cash generated or paid in relation to our brokerage business, investment banking business, margin financing and securities lending business, trading of financial assets at fair value through profit or loss, 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 losses/ (reversal) of available-for-sale financial assets; (ii) the effects of movements in working capital, such as increase or decreases in margin accounts receivable, financial assets at fair value through profit or loss, and financial assets sold or held under resale agreements or sold under repurchase agreements; and (iii) other cash items such as income tax paid.

In 2014, we had net cash used in operating activities of RMB841.3 million because our cash outflows from movement in working capital exceeded our profit before tax of RMB963.1 million. The cash outflows from movements in our working capital were primarily due to (i) a RMB2,591.4 million increase in margin accounts receivable, which reflected continued growth of our margin financing and securities lending in 2014; (ii) RMB2,935.1 million increase in cash held for brokerage clients; (iii) RMB1,000.3 million increase in financial assets held under resale agreements mainly due to our increased offering of margin financing and securities-backed lending services in 2014; and (iv) RMB1,241.9 million increase in settlement clearing funds. These cash outflows from movements in working capital were partially offset by (i) a RMB4,312.9 million increase in accounts payable to

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brokerage customers; (ii) a RMB1,083.4 million increase in the financial liabilities at fair value through profit or loss; and (iii) a RMB692.4 million decrease in financial assets at fair value through profit or loss due primarily to adjustments to our investment strategies.

In 2013, we had net cash used in operating activities of RMB1,377.3 million due primarily to the cash outflows from movements in working capital exceeded our profit before tax of RMB350.9 million. The cash outflows from movements in our working capital were primarily due to (i) a RMB4,049.5 million increase in financial assets at fair value through profit or loss, primarily due to improving investment strategies and market conditions; (ii) a RMB957.3 million increase in margin accounts receivable, which reflected the rapid growth of our margin financing and securities lending business in 2013; and (iii) a RMB460.6 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) RMB2,585.7 million increase in financial assets sold under repurchase agreements as a result of our increased liquidity management activities; and (ii) a RMB1,319.3 million increase in the financial liabilities at fair value through profit or loss.

In 2012, we had net cash used in operating activities of RMB112.5 million because our cash outflows from movements in working capital exceeded our profit before tax of RMB66.0 million. The cash outflows from movements in our working capital were due primarily to (i) a RMB189.7 million increase in margin accounts receivable mainly due to the commencement of our margin financing and securities lending business in 2012; (ii) a RMB620.5 million decrease in accounts payable to brokerage customers; and (iii) a RMB457.2 million decrease in financial assets sold under repurchase agreements due to our reduced liquidity management activities in 2012. These cash outflows from movements were partially offset by (i) a RMB407.0 million decrease in financial assets at fair value through profit or loss based on adjustments to our investment strategies; (ii) a RMB256.3 million decrease in cash held for our brokerage clients; and (iii) RMB286.2 million decrease in clearing settlement funds.

In 2012, although we had profit before tax of RMB66.0 million, we recorded negative operating cash flows of RMB112.5 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 2014, and recorded a net increase of RMB957.3 million and RMB2,591.4 million in our margin accounts receivable in 2013 and 2014, respectively. We also reported RMB407.0 million of net increase in our financial assets at fair value through profit or loss, 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. As a result, we reported negative operating cash flows of RMB1,377.3 million and RMB841.3 million in 2013 and 2014, respectively, although we had profit before tax of RMB350.9 million and RMB963.1 million, respectively, during the same years. We expect to use a portion 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 subordinated corporate bonds in October 2014 to replenish our working capital, which will also be treated as cash inflow from financing activities. As we intend to actively expand our capital-based intermediary businesses, we may continue to report negative operating cash flows in 2015 and the near future after the Global Offering.

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Net Cash Flows from Investing Activities

Our cash inflows from investing activities consist primarily of the proceeds from the disposal of available-for-sale financial assets as well as dividends and interests received from our investments. Our cash outflows from investing activities consist primarily of our purchases of properties, equipment, intangible assets and available-for-sale financial assets.

In 2014, our net cash used in investing activities was RMB205.5 million, due primarily to RMB1,446.3 million net cash received from disposal of available-for-sale financial assets based on our investment strategies in response to the PRC securities market conditions, which was offset by RMB1,641.1 million of cash used for the purchase of available-for-sale financial assets based on our investment strategies.

In 2013, our net cash from investing activities was RMB148.9 million, due primarily to (i) RMB844.8 million net cash received from disposal of available-for-sale financial assets based on our investment strategies in response to the PRC securities market conditions; and (ii) RMB224.0 million net cash received from proceeds on disposal of Guolian Futures in August 2013, partially offset by RMB1,044.7 million of cash used for the purchase of available-for-sale financial assets based on our investment strategies.

In 2012, our net cash used in investing activities was RMB110.7 million, due primarily to net cash of RMB172.4 million used for the purchase of available-for-sale financial assets, and partially offset by RMB144.3 million of cash received from disposal of available-for-sale financial assets, both based on our investment strategies in response to the prevailing PRC securities market conditions.

Net Cash Flows from Financing Activities

In 2014, our net cash from financing activities amounted to RMB1,675.2 million which consisted of RMB1,800.0 million cash proceeds we received from the issuance of our subordinated corporate bonds in August and October 2014, partially offset by dividends we paid to our Shareholders and interest expenses we paid to the bondholders of the outstanding subordinated corporate bonds.

In 2013, we had net cash used in financing activities of RMB71.0 million which consisted of dividends we paid to our Shareholders and interest expenses we paid to the bondholders of the outstanding subordinated corporate bonds.

In 2012, our net cash used in financing activities amounted to RMB86.1 million which consisted of the payment we made to our Shareholders as dividends and to our bondholders of the outstanding subordinated corporate bonds.

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 assets and liabilities are current assets and current liabilities.

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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 |
|--|--------------------|-----------------|-----------------|-------------------|
| | 2012 | 2013 | 2014 | April 30, 2015 |
| | (RMB in millions) | | | (unaudited) |
| Current assets | | | | |
| Other current assets ⁽¹⁾ | 118.2 | 164.9 | 190.2 | 275.8 |
| Available-for-sale financial assets | 101.4 | 246.5 | 809.2 | 815.7 |
| Margin accounts receivable | 189.7 | 1,147.0 | 3,738.4 | 6,894.8 |
| Financial assets held under resale agreements ⁽²⁾ | — | 460.6 | 1,460.9 | 1,466.3 |
| Derivative financial assets | — | — | — | — |
| Financial assets at fair value through profit or loss | 730.1 | 4,809.1 | 4,279.9 | 3,114.8 |
| Clearing settlement funds | 1,160.9 | 1,276.9 | 2,775.5 | 2,496.3 |
| Cash held for brokerage clients | 2,977.4 | 2,783.6 | 5,718.7 | 14,686.6 |
| Cash and bank balances | 1,908.2 | 578.7 | 950.4 | 1,082.5 |
| Assets of disposal group classified as held for sale ⁽⁵⁾ | 1,609.4 | — | — | — |
| Total current assets | <u>8,795.3</u> | <u>11,467.3</u> | <u>19,923.2</u> | <u>30,832.8</u> |
| Current liabilities | | | | |
| Other current liabilities ⁽³⁾ | 183.6 | 179.4 | 380.6 | 280.2 |
| Current income tax liabilities | 0.6 | 23.0 | 89.2 | 72.4 |
| Bonds in issue | — | — | 300.0 | 1,860.0 |
| Due to other financial institutions | — | 200.0 | 550.0 | 850.0 |
| Derivative financial liabilities | — | — | — | — |
| Financial assets sold under repurchase agreements ⁽⁴⁾ | — | 2,585.7 | 2,251.1 | 2,300.3 |
| Financial liabilities at fair value through profit or loss | 27.3 | 1,375.7 | 2,495.5 | 2,629.2 |
| Accounts payable to brokerage clients | 3,892.6 | 3,455.9 | 7,768.8 | 16,186.5 |
| Liabilities of disposal group classified as held for sale ⁽⁵⁾ | 1,288.2 | — | — | — |
| Total current liabilities | <u>5,392.3</u> | <u>7,819.7</u> | <u>13,835.2</u> | <u>24,178.6</u> |
| Net current assets | <u>3,403.0</u> | <u>3,647.6</u> | <u>6,088.0</u> | <u>6,654.2</u> |

Notes:

- (1) Other current assets mainly consist of interest receivables, accounts receivables, prepaid expenses and other receivables.
- (2) Financial assets held under resale agreement mainly consist of assets we hold under 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) The assets and liabilities related to Guolian Futures, a 86% owned subsidiary of our Company, had been presented as assets and liabilities of disposal group classified as held for sale as we had decided to dispose of in 2012. The transaction was completed.

Our current assets consist primarily of cash held for brokerage clients, financial assets at fair value through profit or loss, 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. Deposits from customers in our securities 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

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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 more information on our assets and liabilities excluding customer deposits in our brokerage business.

Our net current assets remained positive during the Track Record Period.

As of April 30, 2015, our net current assets increased to RMB6,654.2 million compared to RMB6,088.0 million as of December 31, 2014, because the increase in our total current assets was more than the increase in our total current liabilities. The increase in our net current assets was primarily due to (i) a RMB8,967.9 million increase in the cash held for our brokerage clients as we continued to expand our securities brokerage business; and (ii) a RMB3,156.4 million increase in our margin accounts receivable due to the growth of our margin financing and securities lending business, offset partially by a RMB1,165.1 million decrease in financial assets at fair value through profit or loss. The increase in our current liabilities was due primarily to (i) a RMB1,560.0 million increase in bonds in issue as we issued additional subordinated corporate bonds to certain financial institutions in January 2015 to increase our Net Capital and replenish our working capital; and (ii) a RMB8,417.7 million increase in accounts payable to brokerage clients.

As of December 31, 2014, our net current assets increased to RMB6,088.0 million compared to RMB3,647.6 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 (i) a RMB2,591.4 million increase in our margin accounts receivable as we continue to increase the scale of our margin financing and securities lending business in 2014; and (ii) a RMB2,935.1 million increase in cash held for brokerage clients as we expanded our securities brokerage business and had an increased number of customers compared to 2013. The increase in our current liabilities was due primarily to (i) a RMB1,119.8 million increase in financial liabilities at fair value through profit or loss, as a result of an increase in payables to interest holders of our consolidated structured entities after we consolidated 18 self-developed collective asset management schemes as structured entities in 2014 (out of the 23 schemes we invested) compared to 11 such schemes in 2013; and (ii) our issuance of short-term subordinated corporate bonds in the aggregate principal amount of RMB300.0 million to an asset management company.

As of December 31, 2013, our net current assets increased to RMB3,647.6 million compared to RMB3,403.0 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 due primarily to (i) a RMB4,079.0 million increase in financial assets at fair value through profit or loss due to fair value increase of assets we invested in collective asset management schemes which we consolidated into our balance sheet as structured entities; and (ii) a RMB957.3 million increase in our margin accounts receivable as we expanded our margin financing and securities lending business in 2013, partially offset by a RMB1,329.5 million decrease in our cash and bank balances due to the expansion of our margin financing and securities lending, securities-backed lending and securities repurchase businesses, which require substantial amount of cash. The increase in current liabilities was due primarily to (i) a RMB2,585.7 million increase in financial assets sold under repurchase agreements due to our increased liquidity management activities in 2013; (ii) a RMB1,348.4 million increase in financial liabilities at fair value through profit or loss as a result of substantial increase in payables to interest holders of our consolidated structured entities after we consolidated 11 self-developed collective asset management schemes in 2013 (out of the schemes we made

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investments in) compared to only one such scheme in 2012; and (iii) a RMB200.0 million due to other financial institutions in 2013.

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

Because the clients' deposits held by us fluctuate based on their 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. We believe adjusted net current assets is a more meaningful indicator of our financial performance because it does not include the impact of deposits from our brokerage clients, which is mostly unrelated to our financial performance but can cause large variation on our balance sheet.

| | As of December 31, | | | As of April 30, |
|---|--------------------|---------|----------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | (unaudited) | | | |
| | (RMB in millions) | | | |
| Adjusted current assets ⁽¹⁾ | 4,902.7 | 8,011.4 | 12,154.4 | 14,646.3 |
| Adjusted current liabilities ⁽²⁾ | 1,499.7 | 4,363.8 | 6,066.4 | 7,992.1 |
| Current ratio ⁽³⁾ | 326.9% | 183.6% | 200.4% | 183.3% |

Notes:

- (1) Adjusted current assets equal total current assets less accounts payable to brokerage clients, the latter represents the amount of deposits held by us on behalf of our 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.

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, | | |
|--|--------------------|--------------|----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Non-current assets | | | |
| Property, plant and equipment | 130.6 | 117.0 | 104.7 |
| Goodwill | — | — | — |
| Intangible assets | 10.4 | 11.9 | 24.1 |
| Investments in associates | 165.7 | 178.8 | 195.4 |
| Other non-current assets | 61.0 | 40.6 | 23.5 |
| Available-for-sale financial assets | 16.6 | 79.5 | 79.9 |
| Held-to-maturity financial assets | — | — | 10.0 |
| Deferred income tax assets | 9.8 | 3.0 | — |
| Refundable deposits | 106.7 | 34.2 | 88.1 |
| Total non-current assets | 500.8 | 465.0 | 525.7 |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 1.0 | 2.0 | 115.0 |
| Bonds in issue | 650.0 | 650.0 | 2,150.0 |
| Total non-current liabilities | 651.0 | 652.0 | 2,265.0 |

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Our non-current assets mainly include fixed assets, investments in associates, available-for-sale financial assets, held-to-maturity financial assets and refundable deposits. Our fixed assets mainly consist of equipment and real property used for our operations. Our investments in associates consist of direct equity investments in private companies and investments in equity investment funds. Our available-for-sale financial assets primarily include our equity investments in private companies and our investments in certain trust schemes and collective asset management schemes with fixed maturity. Our held-to-maturity financial assets consist of our investments in bonds in accordance with our investment strategy. 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 decreased by 7.2% from RMB500.8 million as of December 31, 2012 to RMB465.0 million as of December 31, 2013, due primarily to a decrease in our refundable deposits because we no longer had to make deposits at futures exchanges in China after we sold our futures business, Guolian Futures, in 2013. Our non-current assets increased to RMB525.7 million as of December 31, 2014, due primarily to an increase in our refundable deposits as we made larger deposits at stock exchanges in China in line with the growth of our securities brokerage business, partially offset by a decrease in property, plant and equipment, primarily because we did not add significant property, plant and equipment while recording a larger amount of accumulated depreciation.

During the Track Record Period, our non-current liabilities consisted only of deferred income tax liabilities and the outstanding portion of the subordinated corporate bonds we issued in 2011 and 2014, respectively.

Indebtedness

As of April 30, 2015, the latest date for determining our indebtedness, we had a total borrowing of RMB5,010.0 million, the details of which are set forth below:

| | <u>As of April 30, 2015</u> (unaudited) (RMB in millions) |
|-------------------------------------|---|
| Long-term borrowings | |
| Subordinated Corporate Bonds | |
| Unsecured | 1,500.0 |
| Income certificates | |
| Unsecured | 800.0 |
| Short-term borrowings | |
| Subordinated Corporate Bonds | |
| Unsecured | 1,500.0 |
| Due to other financial institutions | |
| Secured | 850.0 |
| Income certificates | |
| Unsecured | <u>360.0</u> |
| Total borrowings | <u><u>5,010.0</u></u> |

Subordinated Corporate Bonds

On February 14, 2011, we issued subordinated corporate bonds to Guolian Group in an aggregate principal amount of RMB650.0 million to increase our Net Capital to conduct new

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businesses. These bonds bore an interest rate of 6.22% with a maturity of in five years. They were fully redeemed on January 22, 2015.

In order to replenish our working capital, on August 6, 2014, we issued an aggregate principal amount of RMB300.0 million of short-term subordinated corporate bonds to an asset management company with an interest rate of 6.30% and a term of six months. These bonds were fully redeemed on February 6, 2015.

In addition, on October 29, 2014, we completed the issuance of an aggregate principal amount of RMB1.5 billion of subordinated corporate bonds to several financial institutions, which have the following key terms:

| | |
|------------------|--------------------------------------|
| Principal amount | RMB1.5 billion |
| Interest | 6.2% |
| Maturity | Three years |
| Issuer rating | AA+ |
| Bond rating | AA |
| Rating agency | China LianHe Credit Rating Co., Ltd. |
| Issue date | October 29, 2014 |
| Offer price | 100% |
| Listing venue | Shanghai Stock Exchange |

We used the net proceeds from these subordinated corporate bond issuances to increase our Net Capital and/or finance our working capital. In addition, on January 20, 2015, we issued subordinated corporate bonds to several financial institutions in an aggregate principal amount of RMB1.5 billion. For the principal terms of these subordinated corporate bonds, please refer to “—Recent Development.” We believe that our subordinated corporate bonds can provide us with external funds at a longer term to support our business expansion, especially margin financing and securities lending and other capital-based intermediary businesses.

Due to Other Financial Institutions

As at December 26, 2013, we obtained a RMB200.0 million short-term loan from the Bank of Nanjing, with an interest rate of 5.83% per annum. We have repaid this loan in full on January 2, 2014. In addition, in 2013, we entered into a margin refinancing agreement with China Securities Finance in order to actively carry out our margin financing and securities lending business. As of April 30, 2015, the balance of the financing provided by China Securities Finance was RMB850.0 million. For the main terms of the margin refinancing agreement, please refer to “Business—Credit Transactions—Margin Financing and Securities Lending.”

Income Certificates

During the first four months of 2015, we issued eight income certificates to certain banks and financial institutions in the PRC in an aggregate amount of RMB1,460.0 million. The interest rates range from 6.00% to 6.50% per annum. These income certificates mature between two months and two years from their respective date of issuance. As of April 30, 2015, two of the income certificates with an aggregate amount of RMB300.0 million have matured and were settled.

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Borrowings from Guolian Group

During the Track Record Period and as of April 30, 2015, we have obtained short-term loans from Guolian Finance, a subsidiary of Guolian Group, to meet the needs of our business operations, including the short-term needs of margin financing and securities lending business. These loans have been provided to us on terms similar to those available from commercial banks or independent financial institutions in the open market. During the Track Record Period, the maximum and minimum term for these loans was seven days and one day, respectively. Meanwhile, the maximum and minimum amount for a single loan was RMB400.0 million and RMB8.0 million, respectively, and the interest rates for these loans ranged between 1.76% per annum and 13.44% per annum. Please see “Relationship with our Controlling Shareholders—Independence from our Controlling Shareholders—Financial Independence” for more details on these short-term loans. Our Directors have confirmed that as of the Latest Practicable Date, such short-term loans from Guolian Finance have been fully paid, and there were no outstanding borrowings from our Controlling Shareholders and their affiliates.

Our Directors have confirmed that, except for the short-term borrowings from Guolian Finance, the issuance of the subordinated corporate bonds in January 2015, the subsequent redemption of our subordinated corporate bonds issued in 2011 and the income certificates issued in 2015, there has not been any material change in our indebtedness since December 31, 2014. Apart from the foregoing, we did not have, as of April 30, 2015, 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, plant, equipment, intangible assets and long-term prepaid expenses. The following table sets forth our capital expenditures for the years indicated:

| | Year ended December 31, | | |
|----------------------------|-------------------------|------|------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Capital expenditures | 23.5 | 22.0 | 33.0 |

Our capital expenditures were RMB23.5 million, RMB22.0 million and RMB33.0 million in 2012, 2013 and 2014, respectively. During those periods, we incurred capital expenditures primarily for purchasing equipment and software as well as the renovation, improvement and expansion of our branch network.

As of December 31, 2014, we estimated our capital expenditures for 2015 to be approximately RMB21.0 million, which we will use primarily for purchasing software and equipment and upgrading our IT system, including the Internet trading services platform. We intend to finance these capital expenditures from our operating cash flow.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital Commitments

As of December 31, 2012, 2013 and 2014 and April 30, 2015, we were not involved in any material capital commitments.

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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 |
|--------------------------|--------------------|--------------|-------------|-------------------|
| | 2012 | 2013 | 2014 | April 30, 2015 |
| | | | | (unaudited) |
| | | | | (RMB in millions) |
| Within one year | 35.3 | 31.6 | 30.5 | 28.0 |
| One to three years | 61.4 | 47.3 | 31.8 | 27.7 |
| Over three years | 43.5 | 25.1 | 16.0 | 13.2 |
| Total | <u>140.2</u> | <u>104.0</u> | <u>78.3</u> | <u>68.9</u> |

Contingent Liabilities

As of December 31, 2014, 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, 2014 to the date of this prospectus.

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 51 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 party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, except for the outstanding RMB300.0 million Net Capital guarantee we provided to Hua Ying Securities, we do not have any other outstanding off-balance sheet guarantees or foreign currency forward contracts. This guarantee was entered into on October, 2013 and became effective in February, 2014. Funding will be provided by us to Hua Ying Securities to replenish its working capital in the event it has insufficient liquidity and working capital to conduct certain of its businesses. The guarantee has a term of three years. Hua Ying Securities agrees to pay us an annual fee equal to 1% of the guarantee amount.

In addition, we have obtained credit facilities from certain commercial banks and independent financial institutions to finance our margin financing and securities lending business. As of April 30, 2015, approximately RMB3,700.0 million under such facilities were available to us for draw-down.

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

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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 trading, asset management and investment and margin financing and securities lending businesses. As of December 31, 2012, 2013 and 2014, we were in compliance with all of our capital adequacy and risk control index requirements. As of December 31, 2014, our Net Capital amounted to RMB4,579.8 million.

The following table sets forth our Net Capital and key regulatory risk control indicators that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:*

| | As of December 31, | | | Warning level ⁽¹⁾ | Minimum / maximum level |
|--|--------------------|---------|---------|------------------------------|-------------------------|
| | 2012 | 2013 | 2014 | | |
| Net Capital ⁽²⁾ (RMB in millions) | 2,866.3 | 3,104.7 | 4,579.8 | 240.0 | >200.0 |
| Net Capital/total risk capital reserves ⁽³⁾ (%) | 1,143.6 | 637.7 | 687.0 | 120.0% | >100.0% |
| Net Capital/net assets (%) | 91.7 | 89.7 | 105.6 | 48.0% | >40.0% |
| Net Capital/total liabilities ⁽⁴⁾ (%) | 342.8 | 94.5 | 89.2 | 9.6% | >8.0% |
| Net asset/total liabilities (%) | 373.8 | 105.3 | 84.4 | 24.0% | >20.0% |
| Value of equity securities of principal investment and securities derivatives /Net capital (%) | 12.8 | 22.6 | 32.5 | 80.0% | <100.0% |
| Value of fixed income securities of principal investment /Net capital (%) | 17.5 | 101.2 | 29.0 | 400.0% | <500.0% |

Notes:

* Based on the special purpose consolidation involving our Company and Hua Ying Securities in accordance with the relevant PRC regulatory requirements.

- (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 level 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. The risk adjustments of financial assets include, among others, stocks, money markets funds, securities investment funds, fixed income securities, convertible bonds, investment in trust products and investments in collective asset management schemes. Risk adjustments of other assets and contingent liabilities include, among other things, margin financing provided, securities lent, funds lent pursuant to securities-backed lending, funds lent pursuant to securities repurchase, amount of guarantees provided to third parties and amount of guarantees provided to controlling subsidiaries engaged in securities business. Other adjustments determined or authorized by the CSRC include, among others, amount received from the issuance of subordinated debt and amount of guarantees provided by the parent company.
- (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) Total liabilities exclude the accounts payable to our brokerage clients.

Our Net Capital/net assets ratio increased from 91.7% in 2012 to 105.6% in 2014, primarily due to RMB1.5 billion of subordinated corporate bonds we issued in October 2014, certain amount of which were included in the calculation of Net Capital in 2014 in accordance with the Regulations on Subordinated Debt of Securities Companies (《證券公司次級債管理規定》). As our Group adopted a comparatively conservative business strategy, we faced lower risk capital reserve requirements during the Track Record Period, which led to our comparatively higher Net Capital/net assets ratio, especially in 2014 mainly because according to the Regulations on Subordinated Debt of Securities Companies, certain amount of the subordinated corporate bonds we issued in 2011 and 2014 were included in the calculation of Net Capital in 2014, which resulted in it being larger than our net assets in 2014 after taking into account various risk adjustments made in our financial assets and other assets and contingent liabilities as well as certain adjustments authorized by the CSRC.

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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 did not have any non-compliance 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 of loss arising from adverse change in fair value or movement in future cash flows of a financial instrument due to 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, 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.

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. We invest 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. We 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 December 31, 2012, 2013 and 2014, our collateral value was sufficient to mitigate the credit risk in margin trading.

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Our credit risk also arises from the securities brokerage business. We generally require customers to deposit all cash required in trading before we 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 Group's maximum credit risk exposure is as follows:

| | As of December 31, | | |
|---|--------------------|-----------------|-----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in millions) | | |
| Refundable deposits | 106.7 | 34.2 | 88.1 |
| Other current assets | 38.5 | 152.9 | 179.8 |
| Margin accounts receivable | 189.7 | 1,147.0 | 3,738.4 |
| Held-to-maturity financial assets | — | — | 10.0 |
| Available-for-sale financial assets | | | |
| — Securities lent to clients | 1.3 | 3.4 | 61.9 |
| Financial assets held under resale agreements | — | 460.6 | 1,460.9 |
| Financial assets at fair value through profit or loss | | | |
| — Debt securities | 135.5 | 4,395.8 | 3,824.8 |
| Clearing settlement funds | 1,160.9 | 1,276.9 | 2,775.5 |
| Cash held for brokerage clients | 2,977.4 | 2,783.6 | 5,718.7 |
| Bank balances | 1,908.2 | 578.6 | 950.4 |
| Assets of disposal group classified as held-for-sale | | | |
| Refundable deposits | 258.4 | — | — |
| Other current assets | 35.6 | — | — |
| Clearing settlement funds | 414.8 | — | — |
| Cash held for brokerage clients | 620.0 | — | — |
| Bank balances | 176.3 | — | — |
| Total | 8,023.3 | 10,833.0 | 18,808.5 |

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 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.

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The table below presents the residual maturities of our Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

| | As of December 31, 2012 | | | | | | Total |
|---|-------------------------|---------------|-----------------------|----------------|------------------|-------------------------|------------------|
| | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | |
| | (RMB in millions) | | | | | | |
| Financial assets | | | | | | | |
| Refundable deposits | 92.3 | — | — | — | — | 14.4 | 106.7 |
| Other current assets | — | — | — | — | — | 38.4 | 38.4 |
| Margin accounts receivable | 134.1 | 35.2 | 20.4 | — | — | — | 189.7 |
| Available-for-sale financial assets | — | — | — | — | — | 118.0 | 118.0 |
| Financial assets held under resale agreements | — | — | — | — | — | — | — |
| Financial assets at fair value through profit or loss | — | — | — | 122.3 | 13.2 | 594.6 | 730.1 |
| Clearing settlement funds | 1,160.9 | — | — | — | — | — | 1,160.9 |
| Cash held for brokerage clients | 2,977.4 | — | — | — | — | — | 2,977.4 |
| Cash and bank balances | 1,908.2 | — | — | — | — | — | 1,908.2 |
| Subtotal | 6,272.9 | 35.2 | 20.4 | 122.3 | 13.2 | 765.4 | 7,229.4 |
| Financial assets of disposal group classified as held-for-sale | | | | | | | |
| Refundable deposits | 258.4 | — | — | — | — | — | 258.4 |
| Other current assets | — | — | — | — | — | 35.6 | 35.6 |
| Available-for-sale financial assets | — | — | — | — | — | 60.0 | 60.0 |
| Financial assets at fair value through profit or loss | — | — | — | — | — | 21.7 | 21.7 |
| Clearing settlement funds | — | — | — | — | — | 414.8 | 414.8 |
| Cash held for brokerage clients | 620.0 | — | — | — | — | — | 620.0 |
| Cash and bank balances | 176.3 | — | — | — | — | — | 176.3 |
| Subtotal | 1,054.7 | — | — | — | — | 532.1 | 1,586.8 |
| Financial liabilities | | | | | | | |
| Bonds in issue | — | — | — | (650.0) | — | — | (650.0) |
| Other current liabilities | — | — | — | — | — | (108.2) | (108.2) |
| Financial assets sold under repurchase agreements | — | — | — | — | — | — | — |
| Financial liabilities at fair value through profit or loss | — | — | — | — | — | (27.3) | (27.3) |
| Accounts payable to brokerage clients | (3,892.6) | — | — | — | — | — | (3,892.6) |
| Liabilities of disposal group classified as held-for-sale | | | | | | | |
| Other current liabilities | — | — | — | — | — | (2.5) | (2.5) |
| Accounts payable to brokerage clients | — | — | — | — | — | (1,244.3) | (1,244.3) |
| Subtotal | (3,892.6) | — | — | (650.0) | — | (1,382.3) | (5,924.9) |
| Interest rate sensitivity gap | 3,435.0 | 35.2 | 20.4 | (527.7) | 13.2 | (84.8) | 2,891.3 |

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| | As of December 31, 2013 | | | | | | |
|---|-------------------------|----------------|-----------------------|----------------|------------------|-------------------------|------------------|
| | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | Total |
| | (RMB in millions) | | | | | | |
| Financial assets | | | | | | | |
| Refundable deposits | 34.2 | — | — | — | — | — | 34.2 |
| Other current assets | — | — | — | — | — | 152.9 | 152.9 |
| Margin accounts receivable | 428.3 | 405.3 | 313.4 | — | — | — | 1,147.0 |
| Available-for-sale financial assets . . . | — | — | — | — | — | 326.0 | 326.0 |
| Financial assets held under resale agreements | 162.5 | 4.6 | 221.5 | 72.0 | — | — | 460.6 |
| Financial assets at fair value through profit or loss | 20.0 | 1,010.5 | 750.4 | 1,087.1 | 1,527.8 | 413.3 | 4,809.1 |
| Clearing settlement funds | 1,276.9 | — | — | — | — | — | 1,276.9 |
| Cash held for brokerage clients | 2,783.6 | — | — | — | — | — | 2,783.6 |
| Cash and bank balances | 578.6 | — | — | — | — | 0.1 | 578.7 |
| Subtotal | 5,284.1 | 1,420.4 | 1,285.3 | 1,159.1 | 1,527.8 | 892.3 | 11,569.0 |
| Financial liabilities | | | | | | | |
| Bonds in issue | — | — | — | (650.0) | — | — | (650.0) |
| Other current liabilities | — | — | — | — | — | (119.5) | (119.5) |
| Due to other financial institutions . . . | (200.0) | — | — | — | — | — | (200.0) |
| Financial assets sold under repurchase agreements | (2,585.7) | — | — | — | — | — | (2,585.7) |
| Financial liabilities at fair value through profit or loss | — | — | — | — | — | (1,375.7) | (1,375.7) |
| Accounts payable to brokerage clients | (3,455.9) | — | — | — | — | — | (3,455.9) |
| Subtotal | (6,241.6) | — | — | (650.0) | — | (1,495.2) | (8,386.8) |
| Interest rate sensitivity gap | (957.5) | 1,420.4 | 1,285.3 | 509.1 | 1,527.8 | (602.9) | 3,182.2 |

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| As of December 31, 2014 | | | | | | | |
|---|------------------|-----------------------|----------------|------------------|-------------------------|------------------|-------------------|
| Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | Total | |
| (RMB in millions) | | | | | | | |
| Financial assets | | | | | | | |
| Refundable deposits | 74.7 | — | — | — | — | 13.4 | 88.1 |
| Other current assets | — | — | — | — | — | 179.8 | 179.8 |
| Margin accounts receivable | 49.3 | 313.9 | 3,375.2 | — | — | — | 3,738.4 |
| Held to maturity financial assets . . | — | — | — | — | 10.0 | — | 10.0 |
| Available-for-sale financial assets | — | — | — | — | — | 889.1 | 889.1 |
| Financial assets held under resale agreements | 304.7 | 75.0 | 596.2 | 485.0 | — | — | 1,460.9 |
| Financial assets at fair value through profit or loss | — | 75.0 | 159.7 | 1,606.8 | 1,983.3 | 455.1 | 4,279.9 |
| Clearing settlement funds | 2,775.5 | — | — | — | — | — | 2,775.5 |
| Cash held for brokerage customers | 5,718.7 | — | — | — | — | — | 5,718.7 |
| Cash and bank balances | 950.4 | — | — | — | — | — | 950.4 |
| Subtotal | 9,873.3 | 463.9 | 4,131.1 | 2,091.8 | 1,993.3 | 1,537.4 | 20,090.8 |
| Financial liabilities | | | | | | | |
| Bonds in issue | — | (300.0) | — | (2,150.0) | — | — | (2,450.0) |
| Other current liabilities | — | — | — | — | — | (216.7) | (216.7) |
| Due to other financial institutions | — | (300.0) | (250.0) | — | — | — | (550.0) |
| Financial assets sold under repurchase agreements | (1,521.1) | (400.0) | (330.0) | — | — | — | (2,251.1) |
| Financial liabilities at fair value through profit or loss | — | — | — | — | — | (2,495.5) | (2,495.5) |
| Accounts payable to brokerage clients | (7,768.8) | — | — | — | — | — | (7,768.8) |
| Subtotal | (9,289.9) | (1,000.0) | (580.0) | (2,150.0) | — | (2,712.2) | (15,732.1) |
| Interest rate sensitivity gap | 583.4 | (536.1) | 3,551.1 | (58.2) | 1,993.3 | (1,174.9) | 4,358.7 |

Sensitivity Analysis

The following table illustrates the potential impact, of a parallel upward or downward shift of 100 basis points in interest rate curves on our Group's net profit and equity for the next twelve months from the reporting date, based on our Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period.

The sensitivity analysis on net profit and equity is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements.

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Our Group

| | Year ended December 31, | | |
|---------------------------|-------------------------|---------------|---------------|
| | 2012 | 2013 | 2014 |
| Net profit and equity | | | |
| Increases by 100bps | 22,820 | (61,116) | (62,612) |
| Decreases by 100bps | <u>(22,755)</u> | <u>63,828</u> | <u>66,303</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 re-priced 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.

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 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. We are subject to relatively high market risk due to the high volatility of the domestic stock markets.

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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 after income tax and equity 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 after income tax and equity before income tax, while a negative result indicates otherwise.

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------------|-----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in thousands) | | |
| Profit after income tax | | | |
| Increase by 10.0% | 44,593 | 30,998 | 34,132 |
| Decrease by 10.0% | <u>(44,593)</u> | <u>(30,998)</u> | <u>(34,132)</u> |

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------------|-----------------|
| | 2012 | 2013 | 2014 |
| | (RMB in thousands) | | |
| Equity | | | |
| Increase by 10.0% | 53,441 | 52,533 | 97,899 |
| Decrease by 10.0% | <u>(53,441)</u> | <u>(52,533)</u> | <u>(97,899)</u> |

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, early redemption of exchange-quoted bond repurchase products, 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. Our liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can effectively recognize, measure, monitor and control liquidity risk and ensure that its liquidity needs can be met timely with a reasonable cost.

Our finance department organizes and prepares the cash budget annually and makes the financing plan based on the cash budget. Under our approval, the funds will be raised, scheduled and arranged uniformly in order to ensure the unity of funds demand and cost of the capital control.

FINANCIAL INFORMATION

Under the approval by our Investment Decision Committee, our finance department confirms the scale and the structure for a high quality liquid assets reserve, by analyzing the condition of our business scale, total liability, financing ability, and duration of the asset and liability prudently, so that the liquidity and the risk resistance can be accordingly improved.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to our Group. Our 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 December 31, 2012 and 2013 and 2014, we held cash and cash equivalents of approximately RMB2,143.5 million, RMB843.8 million and RMB1,472.3 million, respectively, that are expected to readily generate cash inflows for managing liquidity risk. In addition, we hold financial assets at fair value through profit or loss of RMB730.1 million, RMB4,809.1 million and RMB4,279.9 million at each of the respective period end, which could be readily realized to provide a further source of cash if the need arose.

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 business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

In accordance with the Company Law, our Articles of Association and the requirements of the CSRC, we may pay dividends out of our profit after tax only after we have made the following allowances:

- making up cumulative losses from prior years, if any;
- 10% of our profit is appropriated to the non-distributable statutory surplus reserve;
- 10% of our profit is appropriated to the non-distributable general reserve;
- 10% of our profit is appropriated to the non-distributable transaction risk reserve; and
- appropriations to the discretionary surplus reserve 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 each year as cash dividends in any fiscal year so long as we have profits after tax and accumulated undistributed profits in that year. However, we may decide not to distribute cash dividends due to a significant investment in a particular year.

FINANCIAL INFORMATION

In 2012, 2013 and 2014, we distributed cash dividends of RMB45.0 million, RMB30.0 million, and RMB60.0 million, respectively, to our Shareholders. At a Shareholders' meeting on January 5, 2015, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders. On April 10, 2015, we declared a cash dividend of RMB105.0 million, which was paid to our Shareholders in full in June 2015.

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 varies from 5% to 20% (usually 10%). 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 will be subject to PRC taxation on dividends received from us."

DISTRIBUTABLE RESERVES

As of December 31, 2014, we had retained earnings of RMB1,155.0 million, as determined under IFRS, available for distribution to the shareholders of our Company.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2014 and based on the consolidated net tangible assets attributable to our Shareholders as at December 31, 2014 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 our Group had the Global Offering been completed as of December 31, 2014 or at any future date.

| | Audited consolidated net tangible assets attributable to our Shareholders as of December 31, 2014 ⁽¹⁾ | Estimated net proceeds from the Global Offering ⁽²⁾ | Unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders ⁽³⁾ | Unaudited pro forma adjusted consolidated net tangible assets per share ⁽⁴⁾ | |
|---|--|--|---|--|--------|
| | (RMB in millions) | (RMB in millions) | (RMB in millions) ⁽⁵⁾ | (RMB) | (HK\$) |
| Based on the offer price of HK\$7.10 for each Offer Share | 4,057.9 | 2,127.5 | 6,185.4 | 3.25 | 4.12 |
| Based on the offer price of HK\$8.25 for each Offer Share | 4,057.9 | 2,477.1 | 6,535.0 | 3.44 | 4.35 |

Notes:

- (1) The audited consolidated net tangible assets attributable to our Shareholders as of December 31, 2014 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 our Shareholders as of December 31, 2014 of RMB4,082.0 million with an adjustment for the intangible assets and goodwill as of December 31, 2014 of RMB24.1 million.
- (2) The estimated net proceeds from the Global Offering are based on the individual Offer Price of HK\$7.10 and HK\$8.25 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 our Company, and based on the assumption that no over-allotment option will be granted.
- (3) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to December 31, 2014.

FINANCIAL INFORMATION

- (4) 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 402,400,000 shares are in issue, assuming the Global Offering had been completed on December 31, 2014 and no over-allotment option will be granted.
- (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 RMB0.7890 to HK\$1.00, the PBOC rate prevailing on June 12, 2015. 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.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed 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, 2014 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 RMB137.7 million of listing expenses (assuming an offer price of HK\$7.68 per H Share, which is the mid-point of the stated range of the Offer Price between HK\$7.10 and HK\$8.25 per H Share) until the completion of the Global Offering, of which RMB3.3 million is expected to be charged to our consolidated statements of comprehensive income and RMB134.4 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 2015.

FUTURE PLANS AND USE OF PROCEEDS

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\$7.68 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$7.10 and HK\$8.25 per H Share), we estimate that we will receive net proceeds of approximately HK\$2,918.0 million from the Global Offering after deducting the underwriting commission and other estimated expenses in connection with the Global Offering. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering. In line with our business strategies, we intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 45.0%, or HK\$1,313.1 million, will be used to further develop our margin financing and securities lending business by leveraging our competitive strengths in the securities brokerage business, increasing the penetration rate among our existing clients who are qualified for margin financing and securities lending, and utilizing various financial instruments, such as stock index futures and ETFs, as well as the availability of refinancing to further improve the market position of our margin financing and securities lending business;
- Approximately 20.0%, or HK\$583.6 million, will be used to develop our other capital-based intermediary services to meet our client needs in investment, financing and liquidity, mainly including: (i) expanding our securities-backed lending business, (ii) expanding our services relating to OTC-based products and market-making; and (iii) actively developing other capital-based intermediary business to be approved by the CSRC in the future;
- Approximately 15.0%, or HK\$437.7 million, will be used to expand our proprietary trading business by increasing our investments in stocks, funds, bonds and derivative products, based on our neutral investment, quantitative trading and arbitrage strategies, and subject to effective risk control;
- Approximately 10.0%, or HK\$291.8 million, will be used to develop our Internet trading business, invest in Internet trading systems and establish our own Internet trading platform to attract more customers and create corporate value. In addition, we plan to leverage such Internet trading platform to further develop new businesses, improve our marketing ability based on the content of our services and our brand recognition, and achieve successful transition of our business from a traditional business model; and
- Approximately 10.0%, or HK\$291.8 million, will be used for working capital and other general corporate purposes.

We estimate that the net proceeds from the sale of the Sales Shares by the Selling Shareholders from the Global Offering, after deducting the estimated expenses payable by the Selling Shareholders in connection with the Global Offering, will be approximately HK\$308.8 million, assuming an Offer Price of HK\$7.68 per H Share (being the mid-point of the stated range of the Offer Price between HK\$7.10 and HK\$8.25 per H Share). In accordance with the instructions from the NSSF, we are required to remit the net proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Stock Exchange trading fee) to an account designated by the NSSF.

FUTURE PLANS AND USE OF PROCEEDS

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\$8.25 per H Share, being the high end of the stated Offer Price range, our net proceeds will be increased by approximately HK\$221.6 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\$7.10 per H Share, being the low end of the stated Offer Price range, our net proceeds will be decreased by approximately HK\$221.6 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.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with 12 cornerstone investors (the “Cornerstone Investors,” and each a “Cornerstone Investor”), who have agreed to subscribe, or cause their designated entities to subscribe, for such number of our Offer Shares (rounded down to the nearest whole board lot of 500 H Shares), which may be purchased with an aggregate amount of approximately US\$170 million (approximately HK\$1,318.0 million) (the “Cornerstone Placing”) at the Offer Price.

Assuming an Offer Price of HK\$7.10 (being the low-end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be 185,414,500, representing approximately (i) 41.89% of the Offer Shares; or (ii) 9.75% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$7.68 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be 171,413,500, representing approximately (i) 38.73% of the Offer Shares; or (ii) 9.01% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$8.25 (being the high-end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be 159,569,500, representing approximately (i) 36.05% of the Offer Shares; or (ii) 8.39% of the Shares in issue immediately following completion of the Global Offering.

The Cornerstone Placing will form a part of the International Offering and each Cornerstone Investor has agreed not to subscribe for any Offer Share under the Global Offering (other than and pursuant to their respective cornerstone investment agreements). 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 upon completion of the Global Offering and will be counted towards the public float of our Company. Immediately following completion of the Global Offering, none of the Cornerstone Investors will have any representation on the Board, nor will any of the Cornerstone Investors become a substantial shareholder of our Company (as defined under the 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 in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering—Hong Kong Public Offering—Reallocation” in this prospectus.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party, independent of other Cornerstone Investors, our connected persons and their respective associates.

Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on or around July 3, 2015.

CORNERSTONE INVESTORS

We set out below a brief description of each of our Cornerstone Investors:

China Life Franklin

Pursuant to the cornerstone investment agreement entered into among China Life Franklin Asset Management Co., Limited (“China Life Franklin”), the Joint Global Coordinators and us, China

CORNERSTONE INVESTORS

Life Franklin agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that China Life Franklin would subscribe for would be 21,839,000, representing approximately 4.93% of the Offer Shares and 1.15% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that China Life Franklin would subscribe for would be 20,190,000, representing approximately 4.56% of the Offer Shares and 1.06% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that China Life Franklin would subscribe for would be 18,795,000, representing approximately 4.25% of the Offer Shares and 0.99% of the Shares in issue immediately following completion of the Global Offering.

China Life Franklin is a Hong Kong-based asset management joint venture between China Life Asset Management Company Limited, China Life Insurance (Overseas) Company Limited and Franklin Templeton Investments. China Life Franklin holds the licenses granted from the SFC to carry out Type 9 (asset management) and Type 4 (advising on securities) regulated activities.

CITIC Capital GL

Pursuant to the cornerstone investment agreement entered into among CITIC Capital GL Limited (“CITIC Capital GL”), the Joint Global Coordinators and us, CITIC Capital GL agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage of 1.0%, SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%). Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that CITIC Capital GL would subscribe for would be 21,621,500, representing approximately 4.88% of the Offer Shares and 1.14% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CITIC Capital GL would subscribe for would be 19,988,500, representing approximately 4.52% of the Offer Shares and 1.05% of the Shares in issue immediately following the completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that CITIC Capital GL would subscribe for would be 18,607,500, representing approximately 4.20% of the Offer Shares and 0.98% of the Shares in issue immediately following completion of the Global Offering.

CITIC Capital GL is an investment holding company incorporated in the Cayman Islands, and is an entity controlled by CITIC Capital Holdings Limited (“CITIC Capital”). CITIC Capital is an alternative investment management and advisory company primarily engaged in direct investment, real estate funds, structured finance, asset management and ventures with funds under management of over US\$4.6 billion.

Coastal Capital

Pursuant to the cornerstone investment agreement entered into among Coastal Capital Limited (“Coastal Capital”), the Joint Global Coordinators and us, Coastal Capital agreed to subscribe for such

CORNERSTONE INVESTORS

number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Coastal Capital would subscribe for would be 21,839,000, representing approximately 4.93% of the Offer Shares and 1.15% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Coastal Capital would subscribe for would be 20,190,000, representing approximately 4.56% of the Offer Shares and 1.06% of the Shares in issue immediately following the completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Coastal Capital would subscribe for would be 18,795,000, representing approximately 4.25% of the Offer Shares and 0.99% of the Shares in issue immediately following completion of the Global Offering.

Coastal Capital is a company incorporated in Hong Kong and is a wholly-owned subsidiary of Shanghai Chuang Ji Investment Center (Limited Partnership)* (上海創驥投資中心 (有限合夥)), which in turn is owned as to 1% and 99% by Jiangsu Coastal Innovation Capital Management Limited* (江蘇沿海創新資本管理有限公司) and Jiangsu Coastal Industrial Investment Fund (Limited Partnership)* (江蘇沿海產業投資基金 (有限合夥)) (“Jiangsu Coastal Fund”), respectively. Jiangsu Coastal Fund is managed by Jiangsu Coastal Innovative Capital Management Co., Ltd.* (江蘇沿海創新資本管理有限公司). The main limited partners of Jiangsu Coastal Fund include Shenzhen Ping An Decheng Investment Co., Ltd.* (深圳市平安德成投資有限公司) and Jiangsu Coast Development Group Co., Ltd.* (江蘇省沿海開發集團有限公司). Jiangsu Coastal Fund was established in April 2015 with a subscribed capital contribution of RMB5.02 billion, and currently it is one of the largest equity investment funds in Jiangsu Province. It aims to speed up the industrial development of Jiangsu coastal area and to boost the transformation and upgrade of Jiangsu Province with its major focuses on strategic emerging industries, state-owned enterprise reform projects, merger and acquisition projects and coastal industries.

Wind Info HK

Pursuant to the cornerstone investment agreement entered into among Wind Information (HK) Company Limited (“Wind Info HK”), the Joint Global Coordinators and us, Wind Info HK agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Wind Info HK would subscribe for would be 21,839,000, representing approximately 4.93% of the Offer Shares and 1.15% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Wind Info HK would subscribe for would be 20,190,000, representing approximately 4.56% of the Offer Shares and 1.06% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Wind Info HK would subscribe for would be 18,795,000, representing approximately 4.25% of the Offer Shares and 0.99% of the Shares in issue immediately following completion of the Global Offering.

CORNERSTONE INVESTORS

Wind Info HK is incorporated in Hong Kong and a wholly-owned subsidiary of Shanghai Wind Information Technology Co., Ltd.* (上海萬得信息技術股份有限公司, “Wind Info”). Wind Info HK is an overseas sales channel of Wind Info and currently provides professional financial information and trading services to numerous international and Chinese investment institutions. Wind Info is a market leader in China’s financial information services industry, and is dedicated to provide accurate and real-time information, as well as sophisticated communication platforms for financial professionals.

CSR HK

Pursuant to the cornerstone investment agreement entered into among CSR (Hong Kong) Co. Limited (“CSR HK”), the Joint Global Coordinators and us, CSR HK agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$15 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that CSR HK would subscribe for would be 16,379,500, representing approximately 3.70% of the Offer Shares and 0.86% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CSR HK would subscribe for would be 15,142,500, representing approximately 3.42% of the Offer Shares and 0.80% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that CSR HK would subscribe for would be 14,096,000, representing approximately 3.18% of the Offer Shares and 0.74% of the Shares in issue immediately following completion of the Global Offering.

CSR HK is a company incorporated in Hong Kong, which is wholly-owned and controlled by CRRC Corporation Limited (中國中車股份有限公司), a joint stock limited liability company incorporated in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 601766) and the Stock Exchange (stock code: 1766). CSR HK’s principal activities include marketing, sales of products, trading, after-sales services and capital management. CRRC Corporation Limited is one of the largest rolling stock suppliers in the world. It supplies rolling stock products in series including high speed multiple units, high-powered electric locomotives, transit vehicles, heavy haul freight trains and high-end passenger carriages, and it is also engaged in systematic and comprehensive research, development and manufacturing and other extended businesses.

Dong Yin

Pursuant to the cornerstone investment agreement entered into among Dong Yin Development (Holdings) Limited (“Dong Yin”), the Joint Global Coordinators and us, Dong Yin agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$15 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Dong Yin would subscribe for would be 16,379,500, representing approximately 3.70% of the Offer Shares and 0.86% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Dong Yin would subscribe for would be 15,142,500, representing approximately 3.42% of the Offer Shares and 0.80% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer

CORNERSTONE INVESTORS

Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Dong Yin would subscribe for would be 14,096,000, representing approximately 3.18% of the Offer Shares and 0.74% of the Shares in issue immediately following completion of the Global Offering.

Dong Yin is a company incorporated in Hong Kong with investments in various industries, and it has set up a number of investment vehicles. Dong Yin is a wholly-owned subsidiary of China Orient Asset Management Corporation* 中國東方資產管理公司 (“China Orient”). China Orient was established on October 15, 1999 in the PRC as a state-owned financial institution as approved by the State Council and the PBOC. China Orient is a financial services provider with a wide range of services such as insurance, securities, trust, leasing, credit rating and asset management, which allows China Orient to provide a variety of financial services to its customers.

CRAMC HK

Pursuant to the cornerstone investment agreement entered into among China Re Asset Management (Hong Kong) Company Limited (“CRAMC HK”), the Joint Global Coordinators and us, CRAMC HK agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that CRAMC HK would subscribe for would be 10,919,500, representing approximately 2.47% of the Offer Shares and 0.57% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CRAMC HK would subscribe for would be 10,095,000, representing approximately 2.28% of the Offer Shares and 0.53% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that CRAMC HK would subscribe for would be 9,397,500, representing approximately 2.12% of the Offer Shares and 0.49% of the Shares in issue immediately following completion of the Global Offering.

CRAMC HK is a wholly-owned subsidiary of China Re Asset Management Co., Ltd.* (中再資產管理股份有限公司, “CRAMC”). CRAMC is owned by China Reinsurance (Group) Corporation* (中國再保險(集團)股份有限公司, “China Re”) and its affiliates, and is the asset allocation and investment platform of China Re.

China Re is the only state-owned reinsurance group in China, and was jointly founded by the Ministry of Finance and Central Huijin Investment Ltd.* (中央滙金投資有限責任公司, “Central Huijin”). China Re is owned as to 15.09% and 84.91% by the Ministry of Finance and Central Huijin, respectively. China Re is a provider of full range of services in the insurance industry covering reinsurance, direct insurance, asset management, insurance brokerage and insurance media with diversified and professional operational structure and management layout.

Essence Securities

Pursuant to the cornerstone investment agreement entered into among Essence Securities Co., Ltd.* (安信證券股份有限公司) (“Essence Securities”), the Joint Global Coordinators and us, Essence Securities agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this

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prospectus, the total number of H Shares that Essence Securities would subscribe for would be 10,919,500, representing approximately 2.47% of the Offer Shares and 0.57% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Essence Securities would subscribe for would be 10,095,000, representing approximately 2.28% of the Offer Shares and 0.53% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Essence Securities would subscribe for would be 9,397,500, representing approximately 2.12% of the Offer Shares and 0.49% of the Shares in issue immediately following completion of the Global Offering.

Essence Securities was established in August 2006 in Shenzhen as approved by the CSRC with a registered capital of approximately RMB3.53 billion. The existing shareholders of Essence Securities include State Development & Investment Corporation* (國家開發投資公司), China Securities Investor Protection Funds Co., Ltd.* (中國證券投資者保護基金有限責任公司) and Shenzhen Zhiyuan Capital Co., Ltd.* (深圳市遠致投資有限公司). The core businesses of Essence Securities include securities brokerage, securities investment consulting, financial advisory services related to securities trading and investment, securities underwriting and sponsorship, securities investment, asset management and other businesses approved by the CSRC.

Fund Resources

Pursuant to the cornerstone investment agreement entered into among Fund Resources Investment Holding Group Company Limited (“Fund Resources”), the Joint Global Coordinators and us, Fund Resources agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Fund Resources would subscribe for would be 10,919,500, representing approximately 2.47% of the Offer Shares and 0.57% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Fund Resources would subscribe for would be 10,095,000, representing approximately 2.28% of the Offer Shares and 0.53% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Fund Resources would subscribe for would be 9,397,500, representing approximately 2.12% of the Offer Shares and 0.49% of the Shares in issue immediately following completion of the Global Offering.

Fund Resources is a company incorporated in Hong Kong on January 7, 2013. Fund Resources has a share capital of approximately HK\$28 billion as at March 31, 2015 with its registered office and principal place of business in Hong Kong. The ultimate controlling shareholder of Fund Resources is Funde Sino Life Insurance Co., Ltd.* (富德生命人壽保險股份有限公司) headquartered in Shenzhen, PRC which is a private nationwide life insurance corporation founded on March 4, 2002 with a registered capital of approximately RMB11.75 billion.

Myriad

Pursuant to the cornerstone investment agreement entered into among Myriad Opportunities Master Fund Limited (“Myriad”), the Joint Global Coordinators and us, Myriad agreed to subscribe

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for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Myriad would subscribe for would be 10,919,500, representing approximately 2.47% of the Offer Shares and 0.57% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Myriad would subscribe for would be 10,095,000, representing approximately 2.28% of the Offer Shares and 0.53% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Myriad would subscribe for would be 9,397,500, representing approximately 2.12% of the Offer Shares and 0.49% of the Shares in issue immediately following completion of the Global Offering.

Myriad is the primary fund managed by Myriad Asset Management Limited, which is a Hong Kong based independent asset management company established in 2011. Myriad is an Asia Pacific Integrated Multi-Strategy Fund making investment across the corporate capital structure with a focus on equities, convertible bonds, debts and equity derivatives. Myriad seeks to maximize risk-adjusted investment returns from the best investment opportunities throughout the Asia Pacific region.

Orient Minerva

Pursuant to the cornerstone investment agreement entered into among Orient Minerva Asset Management Co. Ltd.* (東方滙智資產管理有限公司) (“Orient Minerva”), the Joint Global Coordinators and us, Orient Minerva agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Orient Minerva would subscribe for would be 10,919,500, representing approximately 2.47% of the Offer Shares and 0.57% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Orient Minerva would subscribe for would be 10,095,000, representing approximately 2.28% of the Offer Shares and 0.53% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Orient Minerva would subscribe for would be 9,397,500, representing approximately 2.12% of the Offer Shares and 0.49% of the Shares in issue immediately following completion of the Global Offering.

Orient Minerva was established in Qianhai Development Zone of Shenzhen on September 9, 2013 with a registered capital of RMB 93.75 million and principal place of business in Beijing. Orient Minerva is primarily engaged in provision of targeted asset management business and other businesses approved by the CSRC, including banking assets transfer, secondary market structured investment, stock pledge, real estate development and investment, corporate finance through governmental platform, asset securitization, mergers and acquisitions, and investment consultation.

Xinhua Daily Group

Pursuant to the cornerstone investment agreement entered into among Jiangsu Xinhua Daily Media Group Co., Ltd.* (江蘇新華報業傳媒集團有限公司) (“Xinhua Daily Group”), the Joint Global

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Coordinators and us, Xinhua Daily Group agreed to subscribe for, through Hwabao Trust Co., Ltd., a qualified domestic institutional investor as asset manager, or to procure such asset manager to subscribe on its behalf, such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$7.10, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Xinhua Daily Group would subscribe for would be 10,919,500, representing approximately 2.47% of the Offer Shares and 0.57% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$7.68, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Xinhua Daily Group would subscribe for would be 10,095,000, representing approximately 2.28% of the Offer Shares and 0.53% of the Shares in issue immediately following completion of the Global Offering. Assuming the Offer Price of HK\$8.25, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Xinhua Daily Group would subscribe for would be 9,397,500, representing approximately 2.12% of the Offer Shares and 0.49% of the Shares in issue immediately following completion of the Global Offering.

Xinhua Daily Group is a limited liability company established in Nanjing on July 11, 2002. It is a major culture media group solely held by the People's Government of Jiangsu province. Xinhua Daily Group owns a variety of media including 14 newspaper, 7 periodicals, numerous websites, mobile newspaper, mobile news application, outdoor digital screen, as well as Sina Weibo and WeChat news products. Xinhua Daily, one of the major media of Xinhua Daily Group, has a history of 77 years and is the first official newspaper set up by the Communist Party of China which is released nationwide. Yangtze Evening Post, another major newspaper of Xinhua Daily Group, ranks 19th among all the Asian media in the Asia's 500 Most Influential Brands in 2013.

CONDITIONS PRECEDENT

The subscription by each Cornerstone Investor is subject to, among other things, the satisfaction that:

- a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement shall have been entered into and become effective and all of the conditions precedent to completion set forth therein shall have been satisfied (or waived by the relevant parties) by no later than the time and date as specified in these agreements;
- b) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange; and
- c) the respective representations, warranties, undertakings, acknowledgements and confirmations of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are accurate and true in all material respects and not misleading in any material respect, and that there is no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON DISPOSAL OF H SHARES BY THE CORNERSTONE INVESTORS

Each of the above Cornerstone Investors has agreed and has undertaken to our Company and the Joint Global Coordinators that unless it has obtained the prior written consent of our Company and the Joint Global Coordinators to do otherwise, it will not, whether directly or indirectly, at any time

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during the period of six months following the Listing Date, effect any disposal (as defined in the respective cornerstone investment agreements) of any of the Shares subscribed for by it pursuant to the relevant cornerstone investment agreements.

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 of such Cornerstone Investor, provided, that, among other things, such wholly-owned subsidiary undertakes in writing that it will be bound by the Cornerstone Investor's obligations under the relevant cornerstone investment agreement.

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HONG KONG UNDERWRITERS

BOCOM International Securities Limited
ABCI Securities Company Limited
Qilu International Securities Limited
CCB International Capital Limited
CMB International Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the 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 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, 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 which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the 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.

Grounds for Termination

The respective 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 by written notice from the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “Relevant Jurisdiction”); or
 - (ii) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international

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emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, strikes, lock-outs, fire, explosion, flood, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting any Relevant Jurisdiction; or

- (iii) any moratorium, suspension or restriction in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority (as defined in the Hong Kong Underwriting Agreement), New York (imposed at Federal or New York State level or other competent Authority), London, the PRC, the European Union (or any member thereof), Japan or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations 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 any Relevant Jurisdiction; or
- (vi) the imposition of economic sanctions, in whatever form, by, or for, the United States, or the European Union (or any member thereof) on the PRC; or
- (vii) a change or development involving a prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in or affecting any Relevant Jurisdiction; or
- (viii) any change or development involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against our Company or any other member of our Group; or
- (x) an Authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xi) a contravention by any member of our Group or any Director of the Listing Rules or applicable laws; or
- (xii) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the H Shares) pursuant to the Companies (Winding

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Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange, the CSRC and/or the SFC, in circumstances where the matter to be disclosed would, in the opinion of the Joint Global Coordinators, materially and adversely affect the marketing or implementation of the Global Offering; or

- (xiii) that a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any other member of our Group or in respect of which our Company or any other member of our Group is liable prior to its stated maturity, which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or
- (xiv) that an order or petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or any material 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, which in the opinion of the Joint Global Coordinators, may or is likely to be material in the context of the Global Offering,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (1) has or will have or may have an adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or may have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of any of the Joint Sponsors, Joint Global Coordinators, or the Hong Kong Underwriters:
 - (i) that any statement contained in any of this prospectus, the Application Forms and/or in, any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, incomplete or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms, and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and not based on reasonable assumptions; or

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- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (iv) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (v) any material breach of, or any event rendering untrue, incorrect, incomplete and misleading in any respect, any of the representations, warranties and undertakings of our Company under the Hong Kong Underwriting Agreement; or
- (vi) any event, act or omission which gives or is likely to give rise to any material liability of our Company pursuant to the indemnification clause under the Hong Kong Underwriting Agreement; or
- (vii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (viii) the chairman, chief executive officer or chief financial officer of our Company vacating his or her office; or
- (ix) a prohibition on our Company or the Selling Shareholders for whatever reason from allotting or selling the H Shares pursuant to the terms of the Global Offering; or
- (x) any adverse change or development involving a prospective adverse change in the condition (financial or otherwise), or in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group, taken as a whole; or
- (xi) any of PricewaterhouseCoopers, Jingtian & Gongcheng or Jones Lang LaSalle Corporate Appraisal and Advisory Limited withdraws its consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appear; or
- (xii) approval by the CSRC in connection with the application for the listing of the H Shares on the Stock Exchange is withdrawn;
- (xiii) approval by the Listing Committee of the listing of, and permission to deal in, the H Shares to be issued or sold under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xiv) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

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Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by Our Company

We have undertaken to the Stock Exchange that, except pursuant to the Global Offering or any issue of Shares or securities in compliance with Rules 10.08(1) to (4) of the Listing Rules, at any time during the period of six months from the Listing Date, we will not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities (including warrants or other convertible securities) or grant or agree to grant any options, rights, interests or encumbrances over any Shares or other securities or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or have any intention to do so.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to us and the Stock Exchange that, it shall not and shall procure the relevant registered shareholder(s) not, without prior consent of the Stock Exchange:

- (a) except pursuant to the Global Offering:
 - (i) within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “First Six-Month Period”), dispose of, or enter into any agreement to dispose of or otherwise create options, rights, interests or encumbrances in respect of, any of the Shares or other securities of our Company in respect of which it is shown in this prospectus to be the beneficial owners (as defined in Rule 10.07(2) of the Listing Rules); or
 - (ii) 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 Shares or other securities referred to in subparagraph (a)(i) above if, immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company;
- (b) within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it shall:
 - (i) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
 - (ii) when it receives indications, whether verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

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We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement published in accordance with the Listing Rules as soon as possible after being so informed by any of the Controlling Shareholders.

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 Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except for the offer and sale of the Offer Shares pursuant to the Global Offering, at any time during the First Six-Month Period, we will not without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, 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, any Shares or any other securities of our Company 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 other securities of our Company); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company 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 other securities of our Company); or
- (c) enter into any transaction with the same economic effect as any transaction described in sub-paragraph (a) or (b) above; or
- (d) offer to or agree to do or announce any intention to effect any transaction described in sub-paragraph (a), (b) or (c) above,

in each case, whether any of the transactions described in sub-paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

In the event that, during the period of the Second Six-Month Period, our Company enters into any of the transactions described in sub-paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

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Commission, expenses and joint sponsors' fee

According to the Hong Kong Underwriting Agreement, the Joint Global Coordinators or their respective affiliates will receive an underwriting commission equal to 2.85% of the aggregate Offer Price in respect of the Hong Kong Offer Shares, 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 relevant International Underwriters (but not the Hong Kong Underwriters). In addition, we may, in our sole and absolute discretion, pay any one or all of the Joint Global Coordinators or their respective affiliates an incentive fee of up to 1.00% of the aggregate sale proceeds of the Hong Kong Offer Shares.

The Joint Sponsors have received a sponsor fee of HK\$6.30 million from our Company for acting as the joint sponsors of the Listing.

Based on an Offer Price of HK\$7.68 per H Share (being the mid-point of the indicative offer price range of HK\$7.10 to HK\$8.25 per H Share), the aggregate commission and fee, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering are estimated to be approximately HK\$137.7 million in total. The Selling Shareholders will pay the SFC transaction levy and the Stock Exchange trading fees in respect of the Sale Shares.

Indemnity

We have agreed 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.

Following 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.

THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company and the Selling Shareholders will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

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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.

No over-allotment option will be granted by our Company or the Selling Shareholders to any International Underwriter.

JOINT SPONSORS' INDEPENDENCE

Qilu International Capital Limited, being one of the Joint Sponsors, satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

BOCOM International Holdings, being the holding company of BOCOM International (Asia) Limited, is in the process of creating a business relationship with our Group, which is the result of a potential acquisition of a minority equity interest in a subsidiary of our Company from a core connected person of our Company. It is not predicable at this stage when and whether such business relationship will be established. Furthermore, even if the business relationship is established, it may not have any material immediate impact on the operations, financial results or performance of our Company. Once the business relationship is set up, BOCOM International Holdings, as a member of the sponsor group of BOCOM International (Asia) Limited, will become a core connected person of our Company and therefore, BOCOM International (Asia) Limited is not expected to be an independent sponsor according to the independence criteria set out in Rule 3A.07 of the Listing Rules.

An indirectly wholly-owned subsidiary of ABC International Holdings Limited, being the holding company of ABCI Capital Limited, has 70% equity interest in ABCI Guolian Wuxi Investment Management Co., Ltd.* (農銀國聯無錫投資管理有限公司) (“ABCI Guolian Investment Management”) and the remaining 30% equity interest of ABCI Guolian Investment Management is indirectly owned by Guolian Group, being one of the Controlling Shareholders of our Company. On this basis, a member of the sponsor group of ABCI Capital Limited is a core connected person of our Company and therefore ABCI Capital Limited is not considered as an independent sponsor according to the independence criteria set out in Rule 3A.07 of the Listing Rules. In addition, ABCI Guolian Investment Management is the general partner of ABCI Wuxi Equity Investment Fund (Limited Partnership)* (農銀無錫股權投資基金企業(有限合伙)) (“ABCI Wuxi Equity Investment”), whilst the limited partners of ABCI Wuxi Equity Investment include a wholly-owned subsidiary of ABC International Holdings Limited and a wholly-owned subsidiary of Guolian Group. ABCI Guolian Investment Management may charge ABCI Wuxi Equity Investment management fees for the management services it provides.

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

UNDERWRITING

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 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.

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.

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 and 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.

STRUCTURE OF THE GLOBAL OFFERING

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 44,264,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in “—the Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of 398,376,000 H Shares (comprising 358,136,000 H Shares to be issued by our Company and 40,240,000 Sale Shares to be offered by the Selling Shareholders, subject to adjustment as mentioned below) 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.

Reference in this prospectus to application, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 44,264,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of the Offer Shares available under the Global Offering. Subject to the reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering, the Hong Kong Offer Shares will represent approximately 2.33% of our enlarged registered capital immediately following completion of 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. 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.

The total number of Offer Shares 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: Pool A and

STRUCTURE OF THE GLOBAL OFFERING

Pool B with any odd board lots being allocated to Pool A. Accordingly, the number of Hong Kong Offer Shares initially in Pool A and Pool B will be 22,132,000 and 22,132,000. 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 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 Stock Exchange trading fee payable). 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 that 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 22,132,000 Offer Shares (being 50% of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering) 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 reallocation. Paragraph 4.2 of Practice Note 18 of the 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 132,792,000 H Shares, representing 30% of the Offer Shares 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 177,056,000 H Shares, representing 40% of the Offer Shares available under the Global Offering; and
- 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 221,320,000 H Shares, representing 50% of the Offer Shares available under the Global Offering.

STRUCTURE OF 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.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$8.25 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. Further details are set out in the section headed "How to Apply for the Hong Kong Offer Shares."

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 granting approval for the listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering;
- (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 (including, if relevant, as a result of the waiver of any condition by the Joint Global Coordinators for and on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. on Monday, July 6, 2015.

If, for any reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

STRUCTURE OF THE GLOBAL OFFERING

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 Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the 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 headed “How to Apply for the Hong Kong Offer Shares—Despatch/Collection of Share Certificates and Refund Monies.” 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).

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The number of the International Offer Shares will initially consist of 398,376,000 Offer Shares, consisting of 358,136,000 H Shares to be issued by our Company and 40,240,000 Sale Shares to be offered by the Selling Shareholders, representing 90% of the total number of Offer Shares available under the Global Offering. Subject to reallocation as described below, the International Offer Shares will represent approximately 20.94% of our enlarged registered capital immediately following completion of the Global Offering.

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 “—Pricing” 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 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 for 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.

Reallocation

The total number of Offer Shares to be offered pursuant to the International Offering may change as a result of the clawback arrangement described in “—the Hong Kong Public Offering—Reallocation.”

STRUCTURE OF THE GLOBAL OFFERING

In addition to the reallocation of the Offer Shares from the International Offering to the Hong Kong Public Offering pursuant to the clawback arrangement described in “—the Hong Kong Public Offering—Reallocation” which may be required, the Joint Global Coordinators may, at their discretion, reallocate the Offer Shares initially allocated to the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

Over-allotment Option, Stabilization and Stock Borrowing

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 or the Selling Shareholders in connection with the Global Offering.

No stabilization manager will be appointed and it is anticipated that no stabilization activity will be carried out and there will be no stock borrowing arrangement.

THE SELLING SHAREHOLDERS

The Selling Shareholders are initially offering a total of 40,240,000 Sale Shares as part of the Global Offering.

Pursuant to a letter issued by the NSSF (Shebaojijinf [2015] No. 45) on March 31, 2015, the NSSF instructed us to (i) arrange for the sale of the Sale Shares, which shall equal to 10% of the number of the Offer Shares to be offered by us; and (ii) remit the proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Stock Exchange trading fee) to an account designated by the NSSF.

PRICING

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 Friday, June 26, 2015 (Hong Kong time), and in any event on or before Thursday, July 2, 2015 (Hong Kong time), by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offering Share under the International Offering, as determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders).

The Offer Price will be not more than HK\$8.25 per Offer Share and is expected to be not less than HK\$7.10 per Offer Share unless otherwise announced, as further explained below, not later than

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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 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 the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.glsc.com.cn) announcements of the reduction. Upon issue of such announcement, the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in 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 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 so published, the Offer Price, if agreed upon with our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Price is expected to be announced on Friday, July 3, 2015. The indications of interest in the Global Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares, are expected to be announced on Friday, July 3, 2015 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.glsc.com.cn).

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, (i) the H Shares to be issued pursuant to the Global Offering; and (ii) the Sale Shares which will be converted from Domestic Shares owned by the Selling Shareholders to H Shares and sold for the benefit of the NSSF pursuant to the relevant PRC laws relating to conversion/reduction of state-owned shares.

No part of our Company's Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal in being or proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

STRUCTURE OF THE GLOBAL OFFERING

If the 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 Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the 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 Monday, July 6, 2015, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, July 6, 2015. Our H Shares will be traded in board lots of 500 H Shares each and the stock code of our H Shares will be 1456.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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. Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider 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:

- have a valid Hong Kong identity card number; and
- 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.

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 Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our 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 Tuesday, June 23, 2015 until 12:00 noon on Friday, June 26, 2015 from:

- (i) any of the following offices of the Hong Kong Underwriters:

| | |
|---|---|
| BOCOM International Securities Limited | 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong |
| ABCI Securities Company Limited | 10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong |
| Qilu International Securities Limited | 7/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong |
| CCB International Capital Limited | 12/F., CCB Tower 3 Connaught Road Central Central Hong Kong |
| CMB International Capital Limited | Units 1803-4, 18/F Bank of America Tower 12 Harcourt Road Central Hong Kong |

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) any of the branches of the following receiving banks:

Bank of Communications Co., Ltd. Hong Kong Branch

| <u>District</u> | <u>Branch Name</u> | <u>Address</u> |
|------------------|---------------------------------|---|
| Hong Kong Island | Central District Sub-Branch | G/F., Far East Consortium Building, 125A Des Voeux Road C., Central |
| | Taikoo Shing Sub-Branch | Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road |
| Kowloon | Cheung Sha Wan Plaza Sub-Branch | Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road |
| | Mongkok Sub-Branch | Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road |
| New Territories | Ma On Shan Sub-Branch | Shop No. 3062, Level 3, Sunshine City Plaza, Ma On Shan |

Standard Chartered Bank (Hong Kong) Limited

| <u>District</u> | <u>Branch Name</u> | <u>Address</u> |
|------------------|----------------------------|--|
| Hong Kong Island | Causeway Bay Branch | G/F to 2/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay |
| New Territories | Tuen Mun Town Plaza Branch | Shop No. G047 - G052, Tuen Mun Town Plaza Phase I, Tuen Mun |
| | Tseung Kwan O Branch | Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O |

Wing Lung Bank Limited

| <u>District</u> | <u>Branch Name</u> | <u>Address</u> |
|------------------|-------------------------------|--|
| Hong Kong Island | Head Office | 45 Des Voeux Road Central |
| Kowloon | Lam Tin Sceneway Plaza Branch | Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road |
| New Territories | Sheung Shui Branch | 128 San Fung Avenue |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 23, 2015 until 12:00 noon on Friday, June 26, 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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 Communications (Nominee) Co.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Ltd.—Guolian 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:

Tuesday, June 23, 2015 – 9:00 a.m. to 5:00 p.m.

Wednesday, June 24, 2015 – 9:00 a.m. to 5:00 p.m.

Thursday, June 25, 2015 – 9:00 a.m. to 5:00 p.m.

Friday, June 26, 2015 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, June 26, 2015, the last application day or such later time as described in “—Effect of Bad Weather on the Opening of the Application Lists.”

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 our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our 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;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers 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 our Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers 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 our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our 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;
- (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 our 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 Provider 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.

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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 our 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 Tuesday, June 23, 2015 until 11:30 a.m. Friday, June 26, 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, June 26, 2015 or such later time under “—Effect of Bad Weather on the Opening of the Application Lists.”

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, our 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 paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the

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designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Guolian Securities Co., Ltd.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of Dongjiang—Hong Kong Forest” project initiated by Friends of Earth of (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).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, 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 our 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;

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- 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;
- 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 our 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 our Company to place HKSCC Nominees' name on our 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 our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers 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 our Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers 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 our 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 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

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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 our 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 our Company, for itself and for the benefit of each Shareholder (and so that our 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 (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 our 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;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the 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 the brokerage, SFC transaction levy and the 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 a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the

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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:

Tuesday, June 23, 2015 – 9:00 a.m. to 8:30 p.m.⁽¹⁾

Wednesday, June 24, 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾

Thursday, June 25, 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾

Friday, June 26, 2015 – 8:00 a.m.⁽¹⁾ to 12:00 noon

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 Tuesday, June 23, 2015 until 12:00 noon on Friday, June 26, 2015 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, June 26, 2015, the last application day or such later time as described in “—Effect of Bad Weather on the Opening of the Application Lists.”

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, our 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 our Company, the H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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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. Our Company, the Directors, the Joint Bookrunners, the Joint Sponsors, 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 Friday, June 26, 2015.

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 Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;

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- 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 Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

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 500 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 500 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 Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering—Pricing.”

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 Friday, June 26, 2015. 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 Friday, June 26, 2015 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

We expect to announce the 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 Friday, July 3, 2015 in the South China Morning Post (in English) and the

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Hong Kong Economic Times (in Chinese) on our Company's website at www.glsc.com.cn and the website of the 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 our Company's website at www.glsc.com.cn and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Friday, July 3, 2015;
- from the designated results of allocations website at www.iporeresults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, July 3, 2015 to 12:00 midnight on Thursday, July 9, 2015;
- by telephone enquiry line by calling 2862-8669 between 9:00 a.m. and 10:00 p.m. from Friday, July 3, 2015 to Monday, July 6, 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, July 3, 2015 to Saturday, July 4, 2015 and Monday, July 6, 2015 at all the designated receiving bank branches and sub-branches.

If our 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:

(i) 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 our 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.

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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.

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.

(ii) If our Company or our agents exercise our discretion to reject your application:

Our 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.

(iii) 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 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 our Company of that longer period within three weeks of the closing date of the application lists.

(iv) 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 dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our 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% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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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\$8.25 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering—Conditions of the Hong Kong Public Offering” or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the 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 Friday, July 3, 2015.

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 H 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 favor 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 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 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 before Friday, July 3, 2015. 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 Monday, July 6, 2015 provided that the Global Offering has become unconditional and the right of termination described in the

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“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 Friday, July 3, 2015 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 or before Friday, July 3, 2015, 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 or before Friday, July 3, 2015, by ordinary post and at your own risk.

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 Friday, July 3, 2015, 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***

Our 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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

“Publication of Results” above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, July 3, 2015 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 Friday, July 3, 2015, or such other date as notified by our 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 or before Friday, July 3, 2015 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.

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 Friday, July 3, 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we 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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

the basis of allocation of the Hong Kong Public Offering in the manner specified in “—Publication of Results” above on Friday, July 3, 2015. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, July 3, 2015 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 Friday, July 3, 2015. 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.
- 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 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 Friday, July 3, 2015.

ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply 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 or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the 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 adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H 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 Joint Sponsors 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

23 June 2015

The Directors
Guolian Securities Co., Ltd.

BOCOM International (Asia) Limited
ABCI Capital Limited
Qilu International Capital Limited

Dear Sirs,

We report on the Financial Information of Guolian Securities Co., Ltd. (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at December 31, 2012, 2013 and 2014, the statements of financial position of the Company as at December 31, 2012, 2013 and 2014 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 December 31, 2012, 2013 and 2014 (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 June 23, 2015 (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 the China Securities Regulatory Commission (the "CSRC"), the Company was established in Jiangsu Province, the People's Republic of China (the "PRC") on May 26, 2008 as a joint stock company with limited liability under the Company Law of the PRC.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 22.1 of Section II below.

The consolidated financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises of the PRC (the "CAS") issued by the China Ministry of Finance as at and for each of the years ended December 31, 2012, 2013 and 2014 were audited by Jiangsu Gongzheng Tianye Certified Public Accountants LLP (江蘇公證天業會計師事務所(特殊普通合夥)) in accordance with China Standards on Auditing (the "CSA") issued by the Chinese Institute of Certified

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Public Accountants (the “CICPA”) pursuant to separate terms of engagement with the Company. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC.

For the purpose of this report, the Directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所 (特殊普通合夥)) in accordance with International Standards on Auditing (the “ISAs”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

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 December 31, 2012, 2013 and 2014 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 (the "Financial Information") was prepared by Directors of the Company as at December 31, 2012, 2013 and 2014, and for each of the years ended December 31, 2012, 2013 and 2014:

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(All amounts in RMB'000 unless otherwise stated)

| | Notes | Year ended December 31, | | |
|---|-------|-------------------------|------------------|--------------------|
| | | 2012 | 2013 | 2014 |
| Continuing operations | | | | |
| Revenue | | | | |
| — Commission and fee income | 5 | 514,767 | 713,522 | 1,079,828 |
| — Interest income | 6 | 150,828 | 205,050 | 374,827 |
| — Net investment gains | 7 | 98,537 | 155,196 | 665,852 |
| | | 764,132 | 1,073,768 | 2,120,507 |
| Other income | 8 | 8,307 | 5,650 | 11,149 |
| Total revenue and other income | | 772,439 | 1,079,418 | 2,131,656 |
| Commission and fee expense | 9 | (101,442) | (97,228) | (269,114) |
| Interest expense | 10 | (64,751) | (107,532) | (203,028) |
| Staff costs | 11 | (273,339) | (249,963) | (375,136) |
| Depreciation and amortization | 12 | (51,424) | (50,446) | (43,129) |
| Other operating expenses | 13 | (225,981) | (236,506) | (294,099) |
| Impairment (losses)/reversal | 14 | (1,001) | 1,801 | (283) |
| Total expenses | | (717,938) | (739,874) | (1,184,789) |
| Share of profit of investments in associates | 23 | 11,457 | 11,166 | 16,258 |
| Profit before income tax | | 65,958 | 350,710 | 963,125 |
| Income tax expense | 15 | (19,378) | (90,936) | (232,747) |
| Profit for the year from continuing operations | | 46,580 | 259,774 | 730,378 |
| Discontinued operations | | | | |
| Profit for the year from discontinued operations | 37 | 45,492 | 13,014 | — |
| Profit for the year | | 92,072 | 272,788 | 730,378 |
| Other comprehensive income | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Share of other comprehensive income of investments in associates | 39 | 955 | 1,883 | 6,272 |
| Available-for-sale financial assets | | | | |
| — Changes in fair value | 39 | 9,784 | 23,664 | 389,211 |
| — Income tax effect on changes in fair value | 39 | (2,446) | (5,916) | (97,303) |
| — Amounts reclassified to profit or loss upon disposal of available-for-sale financial assets | 39 | (204) | (7,566) | (80,430) |
| Other comprehensive income for the year, net of tax | | 8,089 | 12,065 | 217,750 |
| Total comprehensive income | | 100,161 | 284,853 | 948,128 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — continued

(All amounts in RMB'000 unless otherwise stated)

| | Notes | Year ended December 31, | | |
|---|-------|-------------------------|----------------|----------------|
| | | 2012 | 2013 | 2014 |
| Profit attributable to: | | | | |
| — Shareholders of the Company | | 93,920 | 269,763 | 714,955 |
| — Non-controlling interests | 16 | (1,848) | 3,025 | 15,423 |
| | | <u>92,072</u> | <u>272,788</u> | <u>730,378</u> |
| Profit attributable to shareholders of the Company arises from: | | | | |
| — Continuing operations | | 54,797 | 258,571 | 714,955 |
| — Discontinued operations | | 39,123 | 11,192 | — |
| | | <u>93,920</u> | <u>269,763</u> | <u>714,955</u> |
| Total comprehensive income attributable to: | | | | |
| — Shareholders of the Company | | 102,009 | 281,828 | 932,705 |
| — Non-controlling interests | 16 | (1,848) | 3,025 | 15,423 |
| | | <u>100,161</u> | <u>284,853</u> | <u>948,128</u> |
| Total comprehensive income attributable to shareholders of the Company arises from: | | | | |
| — Continuing operations | | 62,886 | 270,636 | 932,705 |
| — Discontinued operations | | 39,123 | 11,192 | — |
| | | <u>102,009</u> | <u>281,828</u> | <u>932,705</u> |
| Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share) | | | | |
| Basic/Diluted | | | | |
| From continuing operations | 17 | 0.04 | 0.17 | 0.48 |
| From discontinued operations | 17 | 0.03 | 0.01 | — |
| From profit for the year | | <u>0.07</u> | <u>0.18</u> | <u>0.48</u> |
| Dividends | 18 | <u>45,000</u> | <u>30,000</u> | <u>60,000</u> |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(All amounts in RMB'000 unless otherwise stated)

| | Notes | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|-------|----------------------|----------------------|----------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 19 | 130,558 | 117,029 | 104,652 |
| Goodwill | 20 | — | — | — |
| Intangible assets | 21 | 10,394 | 11,875 | 24,071 |
| Investments in associates | 23 | 165,714 | 178,763 | 195,401 |
| Other non-current assets | 24 | 61,039 | 40,613 | 23,541 |
| Available-for-sale financial assets | 25 | 16,563 | 79,469 | 79,884 |
| Held-to-maturity financial assets | 26 | — | — | 10,000 |
| Deferred income tax assets | 27 | 9,782 | 3,000 | — |
| Refundable deposits | 28 | 106,713 | 34,153 | 88,083 |
| Total non-current assets | | 500,763 | 464,902 | 525,632 |
| Current assets | | | | |
| Other current assets | 29 | 118,166 | 164,914 | 190,155 |
| Available-for-sale financial assets | 25 | 101,408 | 246,519 | 809,189 |
| Margin accounts receivable | 30 | 189,653 | 1,146,952 | 3,738,358 |
| Financial assets held under resale agreements | 31 | — | 460,620 | 1,460,909 |
| Derivative financial assets | 32 | — | — | — |
| Financial assets at fair value through profit or loss | 33 | 730,121 | 4,809,123 | 4,279,893 |
| Clearing settlement funds | 34 | 1,160,882 | 1,276,891 | 2,775,549 |
| Cash held for brokerage clients | 35 | 2,977,368 | 2,783,640 | 5,718,733 |
| Cash and bank balances | 36 | 1,908,226 | 578,730 | 950,417 |
| | | 7,185,824 | 11,467,389 | 19,923,203 |
| Assets of disposal group classified as held for sale | 37 | 1,609,356 | — | — |
| Total current assets | | 8,795,180 | 11,467,389 | 19,923,203 |
| Total assets | | 9,295,943 | 11,932,291 | 20,448,835 |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION — continued

(All amounts in RMB'000 unless otherwise stated)

| | Notes | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|-------|----------------------|----------------------|----------------------|
| Equity and liabilities | | | | |
| Equity attributable to shareholders of the Company | | | | |
| Share capital | 38 | 1,500,000 | 1,500,000 | 1,500,000 |
| Share premium | | 135,638 | 135,638 | 135,638 |
| Reserves | 39 | 747,534 | 862,073 | 1,264,407 |
| Retained earnings | | 574,305 | 711,594 | 1,181,965 |
| Total equity attributable to shareholders of the Company | | 2,957,477 | 3,209,305 | 4,082,010 |
| Non-controlling interests | | 294,967 | 251,214 | 266,637 |
| Total equity | | 3,252,444 | 3,460,519 | 4,348,647 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Deferred income tax liabilities | 27 | 988 | 2,047 | 115,048 |
| Bonds in issue | 40 | 650,000 | 650,000 | 2,150,000 |
| Total non-current liabilities | | 650,988 | 652,047 | 2,265,048 |
| Current liabilities | | | | |
| Other current liabilities | 42 | 183,635 | 179,448 | 380,586 |
| Current income tax liabilities | | 646 | 23,001 | 89,205 |
| Bonds in issue | 40 | — | — | 300,000 |
| Due to other financial institutions | 44 | — | 200,000 | 550,000 |
| Derivative financial liabilities | 32 | — | — | — |
| Financial assets sold under repurchase agreements | 45 | — | 2,585,674 | 2,251,098 |
| Financial liabilities at fair value through profit or loss | 46 | 27,345 | 1,375,733 | 2,495,469 |
| Accounts payable to brokerage clients | 47 | 3,892,646 | 3,455,869 | 7,768,782 |
| | | 4,104,272 | 7,819,725 | 13,835,140 |
| Liabilities of disposal group classified as held-for-sale | 37 | 1,288,239 | — | — |
| Total current liabilities | | 5,392,511 | 7,819,725 | 13,835,140 |
| Total liabilities | | 6,043,499 | 8,471,772 | 16,100,188 |
| Total equity and liabilities | | 9,295,943 | 11,932,291 | 20,448,835 |
| Net current assets | | 3,402,669 | 3,647,664 | 6,088,063 |
| Total assets less current liabilities | | 3,903,432 | 4,112,566 | 6,613,695 |

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(All amounts in RMB'000 unless otherwise stated)

| | Notes | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|-------|----------------------|----------------------|----------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 19 | 124,207 | 113,037 | 102,302 |
| Goodwill | 20 | — | — | — |
| Intangible assets | 21 | 8,238 | 11,330 | 23,691 |
| Investments in subsidiaries | 22 | 733,600 | 733,600 | 733,600 |
| Investments in consolidated structured entities | 22 | — | 186,548 | 337,560 |
| Investments in associates | 23 | 149,504 | 162,251 | 174,309 |
| Other non-current assets | 24 | 55,764 | 37,551 | 21,990 |
| Available-for-sale financial assets | 25 | 11,563 | 32,295 | 65,032 |
| Deferred income tax assets | 27 | 8,865 | 1,085 | — |
| Refundable deposits | 28 | 106,013 | 33,413 | 86,506 |
| Total non-current assets | | 1,197,754 | 1,311,110 | 1,544,990 |
| Current assets | | | | |
| Other current assets | 29 | 100,841 | 89,608 | 93,509 |
| Available-for-sale financial assets | 25 | 90,940 | 246,519 | 784,418 |
| Margin accounts receivable | 30 | 189,653 | 1,146,952 | 3,738,358 |
| Financial assets held under resale agreements | 31 | — | 299,741 | 961,907 |
| Derivative financial assets | 32 | — | — | — |
| Financial assets at fair value through profit or loss | 33 | 687,088 | 2,898,506 | 1,199,639 |
| Clearing settlement funds | 34 | 1,160,364 | 1,253,964 | 2,711,787 |
| Cash held for brokerage clients | 35 | 2,917,076 | 2,494,994 | 5,365,337 |
| Cash and bank balances | 36 | 1,058,587 | 35,575 | 410,483 |
| | | 6,204,549 | 8,465,859 | 15,265,438 |
| Assets of disposal group classified as held for sale | 37 | 201,313 | — | — |
| Total current assets | | 6,405,862 | 8,465,859 | 15,265,438 |
| Total assets | | 7,603,616 | 9,776,969 | 16,810,428 |

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY — continued

(All amounts in RMB'000 unless otherwise stated)

| | Notes | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|-------|-------------------------|-------------------------|--------------------------|
| Equity and liabilities | | | | |
| Share capital | 38 | 1,500,000 | 1,500,000 | 1,500,000 |
| Share premium | | 135,638 | 135,638 | 135,638 |
| Reserves | 39 | 746,946 | 861,847 | 1,264,396 |
| Retained earnings | | 526,101 | 735,206 | 1,154,963 |
| Total equity | | <u>2,908,685</u> | <u>3,232,691</u> | <u>4,054,997</u> |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Deferred income tax liabilities | 27 | — | — | 92,131 |
| Bonds in issue | 40 | 650,000 | 650,000 | 2,150,000 |
| Other non-current liabilities | 41 | — | 24,856 | 347 |
| Total non-current liabilities | | <u>650,000</u> | <u>674,856</u> | <u>2,242,478</u> |
| Current liabilities | | | | |
| Other current liabilities | 42 | 152,285 | 102,366 | 224,129 |
| Current income tax liabilities | | — | 23,788 | 87,542 |
| Bonds in issue | 40 | — | — | 300,000 |
| Due to other financial institutions | 44 | — | 200,000 | 550,000 |
| Derivative financial liabilities | 32 | — | — | — |
| Financial assets sold under repurchase agreements | 45 | — | 2,087,399 | 1,582,500 |
| Accounts payable to brokerage clients | 47 | 3,892,646 | 3,455,869 | 7,768,782 |
| Total current liabilities | | <u>4,044,931</u> | <u>5,869,422</u> | <u>10,512,953</u> |
| Total liabilities | | <u>4,694,931</u> | <u>6,544,278</u> | <u>12,755,431</u> |
| Total equity and liabilities | | <u>7,603,616</u> | <u>9,776,969</u> | <u>16,810,428</u> |
| Net current assets | | <u>2,360,931</u> | <u>2,596,437</u> | <u>4,752,485</u> |
| Total assets less current liabilities | | <u>3,558,685</u> | <u>3,907,547</u> | <u>6,297,475</u> |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in RMB'000 unless otherwise stated)

| | Attributable to shareholders of the Company | | | | | Non-controlling interests | Total equity |
|---|---|----------------|-----------------------|-------------------|----------------|---------------------------|--------------|
| | Share capital (Note 38) | Share premium | Reserves (Note 39) | Retained earnings | | | |
| Balance at January 1, 2012 | 1,500,000 | 135,638 | 719,129 | 545,701 | 296,815 | 3,197,283 | |
| Profit for the year | — | — | — | 93,920 | (1,848) | 92,072 | |
| Other comprehensive income for the year (Note 39) | — | — | 8,089 | — | — | 8,089 | |
| Total comprehensive income for the year | — | — | 8,089 | 93,920 | (1,848) | 100,161 | |
| Dividends recognized as distribution | — | — | — | (45,000) | — | (45,000) | |
| Appropriation to reserves | — | — | 20,316 | (20,316) | — | — | |
| Balance at December 31, 2012 | 1,500,000 | 135,638 | 747,534 | 574,305 | 294,967 | 3,252,444 | |
| Balance at January 1, 2013 | 1,500,000 | 135,638 | 747,534 | 574,305 | 294,967 | 3,252,444 | |
| Profit for the year | — | — | — | 269,763 | 3,025 | 272,788 | |
| Other comprehensive income for the year (Note 39) | — | — | 12,065 | — | — | 12,065 | |
| Total comprehensive income for the year | — | — | 12,065 | 269,763 | 3,025 | 284,853 | |
| Dividends recognized as distribution | — | — | — | (30,000) | (10,640) | (40,640) | |
| Changes in ownership interests in subsidiaries that result in a loss of control | — | — | — | — | (36,138) | (36,138) | |
| Appropriation to reserves | — | — | 102,474 | (102,474) | — | — | |
| Balance at December 31, 2013 | 1,500,000 | 135,638 | 862,073 | 711,594 | 251,214 | 3,460,519 | |
| Balance at January 1, 2014 | 1,500,000 | 135,638 | 862,073 | 711,594 | 251,214 | 3,460,519 | |
| Profit for the year | — | — | — | 714,955 | 15,423 | 730,378 | |
| Other comprehensive income for the year (Note 39) | — | — | 217,750 | — | — | 217,750 | |
| Total comprehensive income for the year | — | — | 217,750 | 714,955 | 15,423 | 948,128 | |
| Dividends recognized as distribution | — | — | — | (60,000) | — | (60,000) | |
| Appropriation to reserves | — | — | 184,584 | (184,584) | — | — | |
| Balance at December 31, 2014 | 1,500,000 | 135,638 | 1,264,407 | 1,181,965 | 266,637 | 4,348,647 | |

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in RMB'000 unless otherwise stated)

| | Year ended December 31, | | |
|---|-------------------------|---------------------------|-------------------------|
| | 2012 | 2013 | 2014 |
| Cash flows from operating activities | | | |
| Profit before income tax | 65,958 | 350,710 | 963,125 |
| Adjustments for: | | | |
| Depreciation and amortization | 51,424 | 50,446 | 43,129 |
| Impairment losses/(reversal) of available-for-sale financial assets | 221 | (1,532) | (234) |
| Net losses/(gains) on disposal of property, plant and equipment and other intangible assets | 330 | (8) | (12) |
| Foreign exchange losses/(gains) | 39 | 306 | (40) |
| Share of profit of associates | (11,457) | (11,166) | (16,258) |
| Interest expense of bonds in issue | 41,104 | 40,992 | 64,778 |
| Realised (losses)/gains from disposal of available-for-sale financial assets | (11,249) | 8,808 | (99,923) |
| Dividends and interest income from available-for-sale financial assets | (2,037) | (6,083) | (7,611) |
| Interest income on held-to-maturity financial assets | — | — | (178) |
| Changes in fair value of financial instruments at fair value through profit or loss | (33,686) | (410) | (126,917) |
| | <u>100,647</u> | <u>432,063</u> | <u>819,859</u> |
| Net decrease/(increase) in operating assets: | | | |
| Net increase in margin accounts receivable | (189,653) | (957,299) | (2,591,406) |
| Net decrease/(increase) in financial assets at fair value through profit or loss | 406,972 | (4,049,481) | 692,443 |
| Net increase in financial assets held under resale agreements | — | (460,620) | (1,000,289) |
| Net decrease/(increase) in refundable deposits | 17,557 | 72,560 | (53,930) |
| Net decrease/(increase) in cash held for brokerage clients | 256,333 | 193,728 | (2,935,093) |
| Net decrease/(increase) in clearing settlement funds | 286,202 | (86,205) | (1,241,857) |
| Net increase in other assets | (4,244) | (118,019) | (22,729) |
| Net (decrease)/increase in operating liabilities: | | | |
| Net (decrease)/increase in accounts payable to brokerage customers | (620,533) | (436,777) | 4,312,913 |
| Net (decrease)/increase in financial assets sold under repurchase agreements | (457,194) | 2,585,674 | (334,576) |
| Net increase in due to other financial institutions | — | 200,000 | 350,000 |
| Net increase/(decrease) in other liabilities | 73,363 | (5,146) | 201,141 |
| Net increase in financial liabilities at fair value through profit or loss | 27,345 | 1,319,277 | 1,083,440 |
| Income tax paid | (9,298) | (67,017) | (121,207) |
| | <u>(213,150)</u> | <u>(1,809,325)</u> | <u>(1,661,150)</u> |
| Net cash outflow from operating activities | <u>(112,503)</u> | <u>(1,377,262)</u> | <u>(841,291)</u> |

CONSOLIDATED STATEMENTS OF CASH FLOWS — continued

(All amounts in RMB'000 unless otherwise stated)

| | Year ended December 31, | | |
|--|-------------------------|--------------------|------------------|
| | 2012 | 2013 | 2014 |
| Cash flows from investing activities | | | |
| Dividends and interest received from investments | 12,813 | 71,443 | 17,681 |
| Proceeds on disposal of property, plant and equipment, intangible assets and other long-term assets | — | 204 | 4,591 |
| Purchase of property, plant and equipment, intangible assets and other long-term assets | (20,422) | (21,894) | (32,970) |
| Cash paid for purchase of available-for-sale financial assets | (172,367) | (1,044,707) | (1,641,083) |
| Cash received from disposal of available-for-sale financial assets | 144,268 | 844,801 | 1,446,298 |
| Proceeds from other investments activities (Note 29) | — | 75,000 | — |
| Payment for other investments activities (Note 29) | (75,000) | — | — |
| Proceeds on disposal of subsidiary | — | 224,021 | — |
| Net cash (outflow)/inflow from investing activities | (110,708) | 148,868 | (205,483) |
| Cash flows from financing activities | | | |
| Dividends paid | (45,000) | (30,000) | (60,000) |
| Cash received from additional bonds in issue | — | — | 1,800,000 |
| Interest expense of bonds in issue | (41,104) | (40,992) | (64,778) |
| Net cash (outflow)/inflow from financing activities | (86,104) | (70,992) | 1,675,222 |
| Net (decrease)/increase in cash and cash equivalents | (309,315) | (1,299,386) | 628,448 |
| Effect of exchange rate changes on cash and cash equivalents | (39) | (306) | 40 |
| Cash and cash equivalents at beginning of year | 2,452,840 | 2,143,486 | 843,794 |
| Cash and cash equivalents at end of year (Note 48) | 2,143,486 | 843,794 | 1,472,282 |

II NOTES TO THE FINANCIAL INFORMATION

1 General information

Guolian Securities Co., Ltd. (國聯證券股份有限公司) (the “Company”) is a joint stock financial institution incorporated in Jiangsu Province, the People’s Republic of China (the “PRC”).

The Company, originally named as Wuxi Securities Company (無錫市證券公司), was set up upon approval from the People’s Bank of China in November 1992 as a collectively owned enterprise with an initial registered capital of RMB32 million. On January 8, 1999, the Company was converted to a limited liability company and was renamed as Wuxi Securities Co., Ltd. (無錫證券有限責任公司). On May 16, 2008, Wuxi Securities Co., Ltd. was converted to a joint-stock company upon approval by the China Securities Regulatory Commission (the “CSRC”) with a registered capital of RMB1,500,000 thousand and was renamed as Guolian Securities Co., Ltd. (國聯證券股份有限公司).

As at December 31, 2014, the registered capital of the Company is RMB1,500,000 thousand. The Company holds the securities institution license No. Z23332000 and business licence No. 320200000009279. The registered address of the Company is No.8 Jinrong One Street Wuxi, Jiangsu Province PRC.

The Company and its subsidiaries (the “Group”) are engaged in the following principal activities: securities and futures brokerage, investment consultancy and financial advisory, securities underwriting and sponsorship, proprietary securities investment, asset management, introducing broker for futures companies, margin financing and securities lending, and agency sale of financial broker products.

2 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards (the “IFRS”), disclosure requirements of the predecessor Hong Kong Companies Ordinance for the Relevant Periods 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), which are carried at fair value.

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.

II NOTES TO THE FINANCIAL INFORMATION — continued

2 Basis of preparation — continued

2.1 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 December 31, 2014 are as follows:

| <u>Standards</u> | <u>Key requirements</u> | <u>Effective from financial years starting on or after</u> |
|--------------------------|--|--|
| Annual improvements 2012 | <p>These amendments include changes from the 2010-2012 cycle of the annual improvements project, that affect the below standards:</p> <ul style="list-style-type: none"> ● IFRS 8 'Operating segments' ● IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' ● IAS 24 'Related Party Disclosures' | July 1, 2014 |
| Annual improvements 2013 | <p>The amendments include changes from the 2011-2013 cycle of the annual improvements project that affect 4 standards:</p> <ul style="list-style-type: none"> ● IFRS 3 'Business combinations' ● IFRS 13 'Fair value measurement' ● IAS 40 'Investment property' | July 1, 2014 |
| IFRS 14 | <p>IFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.</p> <p>IFRS 14 permits eligible first-time adopters of IFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes. IFRS 14 requires separate presentation of regulatory deferral account balances in the statement of financial position and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.</p> | January 1, 2016 |

II NOTES TO THE FINANCIAL INFORMATION — continued

2 Basis of preparation — continued

2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group — continued

| <u>Standards</u> | <u>Key requirements</u> | <u>Effective from financial years starting on or after</u> |
|----------------------------------|---|--|
| IFRS 11 (Amendment) | <p>The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in IFRS 3, Business combinations. Specifically, an investor will need to:</p> <ul style="list-style-type: none"> ● measure identifiable assets and liabilities at fair value; ● expense acquisition-related costs; ● recognize deferred tax; and ● recognize the residual as goodwill. <p>All other principles of business combination accounting apply unless they conflict with IFRS 11. The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.</p> | January 1, 2016 |
| IAS 16 and IAS 38 (Amendment) | <p>The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.</p> <p>The amendment to IAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:</p> <p>where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.</p> | January 1, 2016 |

II NOTES TO THE FINANCIAL INFORMATION — continued

2 Basis of preparation — continued

2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group — continued

| <u>Standards</u> | <u>Key requirements</u> | <u>Effective from financial years starting on or after</u> |
|--------------------------------|--|--|
| IFRS 10 and IAS 28 (Amendment) | <p>The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.</p> <p>A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.</p> | January 1, 2016 |
| Annual improvements 2014 | <p>The amendments include changes from the 2012-2014 cycle of the annual improvements project that affect 4 standards:</p> <ul style="list-style-type: none"> ● IFRS 5, 'Non-current assets held for sale and discontinued operations' ● IFRS 7, 'Financial instruments: Disclosures' ● IAS 19, 'Employee benefits' ● IAS 34, 'Interim financial reporting' | January 1, 2016 |
| IFRS 15 | <p>IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.</p> <p>IFRS 15 provides specific guidance on capitalization of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements</p> | January 1, 2017 |

II NOTES TO THE FINANCIAL INFORMATION — continued

2 Basis of preparation — continued

- 2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group — continued

| <u>Standards</u> | <u>Key requirements</u> | <u>Effective from financial years starting on or after</u> |
|------------------|--|--|
| | <p>about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.</p> <p>IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition:</p> <p>IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services.</p> | |
| IFRS 9 | <p>IFRS 9 (2014), "Financial instruments" replaces the whole of IAS 39.</p> <p>IFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are 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 recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial</p> | January 1, 2018 |

II NOTES TO THE FINANCIAL INFORMATION — continued

2 Basis of preparation — continued

- 2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group — continued

| <u>Standards</u> | <u>Key requirements</u> | <u>Effective from financial years starting on or after</u> |
|------------------|---|--|
| | liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. | |
| IFRS 9 | <p>IFRS 9 introduces a new model for the recognition of impairment losses—the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a ‘three stage’ approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortized cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.</p> <p>IFRS 9 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> | January 1, 2018 |

The Group is in the process of assessing the impact of these new standards and amendments on the Financial Information.

- 2.2 Standards, amendments and interpretations that are not yet effective but have been early adopted by the Group.

The following standards have been early adopted by the group for the first time for year ended December 31, 2014:

Amendments to IAS 27, “Separate financial statements—Equity method in separate financial statements.” This amendment clarifies that an entity preparing separate financial statements to account for those investments in subsidiaries, joint ventures and associates either at cost, or in accordance with IFRS 9 Financial Instruments, or using the equity method.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates**

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Summary of significant accounting policies**3.1.1 Accounting year**

The Group's accounting year starts on January 1, and ends on December 31.

3.1.2 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 ("SEs") 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 recognized as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued****3.1 Summary of significant accounting policies — continued****3.1.3 Disposal of subsidiaries**

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.4 Associates

An associate is an entity over which the Company/Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Company's/Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Company's/Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Company's/Group's share of post-acquisition profit or loss is recognized in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's/Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company/Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company/Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company/Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments in associates' in the profit or loss.

Gain or losses on dilution of equity interest in associates are recognized in the profit or loss.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued****3.1 Summary of significant accounting policies — continued****3.1.5 Separate financial statements**

In the Company's statement of financial position, investments in subsidiaries and consolidated structured entities 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 and consolidated structured entities 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 investment in subsidiaries or consolidated structured entities is impaired. An impairment loss is recognized for the amount by which the investment in subsidiaries' or consolidated structured entities' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' or consolidated structured entities' fair value less costs to sell and value in use.

In the Company's statement of financial position, investments in associates are accounted for at equity method (Note 3.1.4).

3.1.6 Foreign currency translation**(1) 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 Financial Information are presented in Renminbi (RMB), which is the Company's functional and the Group's presentation currency.

(2) Transactions and balances

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognized 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.

3.1.7 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.

3.1.8 Financial instruments**(1) Recognition and de-recognition of financial instruments**

A financial asset or financial liability is recognized 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

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(1) Recognition and de-recognition of financial instruments — continued

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 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 expires. The difference between the carrying amount of a financial liability derecognised and the consideration paid is recognized 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, held-to-maturity, 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 as at fair value through 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. Equity securities, funds and debt securities may be designated at fair value through profit or loss upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39—Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be 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 statement of financial position. The related transaction costs incurred at

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(2) Classification and measurement — continued

(a) Financial assets at fair value through profit or loss — continued

the time of acquisition are expensed in the 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 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.

(b) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Held-to-maturity financial assets are recognized initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets, and are subsequently measured at amortized cost using effective interest rate method.

(c) 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 receivables, 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 effective interest rate method.

(d) 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 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.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(2) Classification and measurement — continued

(e) 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 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 liabilities at fair value through profit or loss are recognized in profit or loss through net investment gains/losses.

The interests of both subordinated interest holders of classified collective asset management schemes and holders of non-classified collective asset management schemes within the Group's consolidation scope were designated at fair value through profit or loss.

(f) 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. Transaction costs and fees of other financial liabilities are included in calculating amortized cost using the effective interest method.

The Group's other financial liabilities mainly comprise "Bonds in issue," "Due to other financial institutions," "Accounts payable to brokerage clients," "Financial assets sold under repurchase agreements" and "Other current liabilities" in the statement of financial position. Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(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 utilizes 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 maximizes the use of observable market inputs and minimizes 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 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 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 recognizes margin financing receivables as loans and receivables, and recognizes 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 using effective interest rate method.

(6) 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 time of acquisition. The corresponding cash paid is recognized on the statement of financial position as "financial assets held under resale agreements." Conversely, assets

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(6) Resale and repurchase agreements — continued

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 repurchase 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.

(7) Impairment of financial assets

Except for 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) Financial asset carried at amortized cost

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then collectively assesses financial assets that are not individually significant. The Group performs a collective assessment for individually assessed financial assets with no objective evidence indicating impairment by including the asset in a group of

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(7) Impairment of financial assets — continued

(a) *Financial asset carried at amortized cost — continued*

financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, 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 through the use of an impairment allowance account and the amount of loss is recognized in income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for acquiring and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed and the amount of loss is determined. Subsequent recoveries of amounts previously written off are recognized in income statement against impairment losses on assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the income statement.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(7) Impairment of financial assets — continued

(b) Available-for-sale financial assets

Objective evidence that a debt instrument is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group; and
- other objective evidence indicating there is an impairment of the financial asset.

A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale indicates there is objective evidence that the equity instrument is 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 or the fair value has been lower than its initial cost for more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, the Company recognize impairment losses in profit or losses if it concludes this decline is prolonged and expected to last for more than one year based on professional judgement of the Company's research department and business department.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. For available-for-sale investments in equity instruments measured at cost,

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.8 Financial instruments — continued

(7) Impairment of financial assets — continued

(b) Available-for-sale financial assets — continued

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, in a subsequent period, the fair value of an impaired 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 the profit or loss, the impairment loss is reversed through profit or loss. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value subsequent to impairment are recognized 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:

- (a) the Group has a legally enforceable right to offset the recognized amounts; and
- (b) the Group has intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.1.9 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 booked as off statement of financial position items. The fees received are recognized 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 recognizes the related commission and fee income from the collective asset management schemes in its statement of comprehensive income.

3.1.10 Property, plant and equipment

The Group's property, plant and equipment include buildings, motor vehicles, electronic and other equipment that are used for operation purpose and have useful lives of more than one year.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.10 Property, plant and equipment — continued

Property, plant and equipment shall be recognized 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-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, plant and equipment are as follows:

| | <u>Estimated useful lives</u> | <u>Estimated residual rates</u> | <u>Annual depreciation rates</u> |
|---|-----------------------------------|-------------------------------------|--------------------------------------|
| Buildings | 30 years | 0-5% | 3.16%-3.33% |
| Motor vehicles | 6 years | 0-5% | 15.83%-16.67% |
| Electronics and other equipment | 2-5 years | 0-5% | 19%-50% |

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, plant 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, plant 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 (Note 3.1.13).

3.1.11 Intangible assets

(1) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued****3.1 Summary of significant accounting policies — continued****3.1.11 Intangible assets — continued****(1) Goodwill — continued**

the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(2) Other intangible assets

Other intangible assets comprise of computer software and transaction seat fees, which are initially recognized at cost. The cost less estimated residual values (if any) of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3.1.13.

3.1.12 Long-term prepaid expenses

Long-term prepaid expenses include expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortization.

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 recognized 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 amortization are tested at least annually for impairment. An impairment loss is recognized 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.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued****3.1 Summary of significant accounting policies — continued****3.1.14 Classified as held-for-sale and discontinued operations**

Disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal groups are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 3.

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the disposal groups constituting the discontinued operation.

3.1.15 Employee benefits

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labor 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.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various defined contribution pension schemes and social security schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labor 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. Contributions are recognized in the profit or loss for the current period.

A defined contribution scheme is a pension or social security 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. During the current and prior periods, the Group's post-employment schemes mainly include basic pension insurance.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.1 Summary of significant accounting policies — continued

3.1.16 Revenue recognition

The Group's revenue mainly includes commission and fee income and interest income.

(1) Commission and fee income

- (a) Revenue from the securities and futures brokerage services is recognized on the date of the transaction;
- (b) Underwriting and sponsors fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (c) Investment consultancy and financial advisory income is recognized when the relevant transactions have been arranged or the relevant services have been rendered;
- (d) Fee revenue from asset management services is recognized according to the provisions of the asset management contract.

(2) 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, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

3.1.17 Government grants

Grants from the government are recognized 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 recognized 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, plant 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.

3.1.18 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued****3.1 Summary of significant accounting policies — continued****3.1.18 Deferred income tax assets and liabilities — continued**

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 recognized 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 utilized.

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-recognized.

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.

3.1.19 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 recognized on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

3.1.20 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 recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3.1.21 Provisions

Provisions for matters such as legal claims are recognized 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 recognized as interest expense.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued****3.1 Summary of significant accounting policies — continued****3.1.22 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized 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.

3.1.23 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 and judgments

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

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.2 Summary of significant accounting estimates and judgments — continued

3.2.2 Impairment of goodwill — continued

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

The Group is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes 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: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) 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.

Based on their judgment, the directors of the Company have assessed the combination of the three elements listed above and concluded that the SEs with the following features are controlled by the Group and should be included for consolidation:

A classified asset management scheme comprises two unit classes where the external investors hold the lower risk units that generate an expected rate of return, while the Group holds the entirety of the higher risk units that enjoy the residue interests of the asset management scheme. The holder of the higher risk units provides credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. Moreover, the Group cannot withdraw its holdings within the operating period of the scheme. It is concluded that the Group is a principal of the schemes with the above features since inception.

II NOTES TO THE FINANCIAL INFORMATION — continued**3 Summary of significant accounting policies and accounting estimates — continued**

3.2 Summary of significant accounting estimates and judgments — continued

3.2.5 Determination of consolidation scope — continued

A classified asset management scheme comprises two unit classes where the Group holds a part of the higher risk units and possibly a part of the lower risk units. The lower risk units generate an expected rate of return and the higher risk units enjoy the residue interests of the asset management scheme. The holders of the higher risk units provide credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. Moreover, the Group cannot withdraw its holding in the higher risk units within the operating period of the scheme. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

A non-classified asset management scheme comprises a single unit class where the Group holds a part of the units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

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% |

5 Commission and fee income

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|----------------|------------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| Securities brokerage | 412,754 | 573,307 | 754,326 |
| Underwriting and sponsorship | 79,928 | 83,353 | 268,627 |
| Investment consultancy and financial advisory | 14,736 | 40,841 | 25,389 |
| Asset management | 7,349 | 16,021 | 31,486 |
| | <u>514,767</u> | <u>713,522</u> | <u>1,079,828</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

6 Interest income

| | Year ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2012 | 2013 | 2014 |
| Interest income from bank deposits | 146,723 | 131,738 | 166,740 |
| Interest income from margin financing and securities lending | 4,105 | 63,335 | 171,375 |
| Interest income from financial assets held under resale agreements | — | 9,977 | 36,712 |
| | <u>150,828</u> | <u>205,050</u> | <u>374,827</u> |

7 Net investment gains

| | Year ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2012 | 2013 | 2014 |
| Realised gains/(losses) from disposal of available-for-sale financial assets | 11,249 | (8,808) | 99,923 |
| Dividends and interest income from available-for-sale financial assets . . . | 2,037 | 6,083 | 7,611 |
| Realised gains from disposal of financial assets at fair value through profit or loss | 29,156 | 37,834 | 250,002 |
| Dividends to interest holders of consolidated SEs | — | (26,541) | (107,552) |
| Dividends and interest income from financial assets designated at fair value through profit or loss | 30,609 | 140,050 | 294,446 |
| Interest income on held-to-maturity financial assets | — | — | 178 |
| Net realised (losses)/gains from derivative financial instruments | (2,076) | 44 | (3,524) |
| Unrealised fair value change of financial instruments at fair value through profit or loss | | | |
| — Financial assets at fair value through profit or loss | 33,686 | 29,521 | 163,213 |
| — Derivative financial instruments | (6,124) | 6,124 | (2,149) |
| — Financial liabilities at fair value through profit or loss | — | (29,111) | (36,296) |
| | <u>98,537</u> | <u>155,196</u> | <u>665,852</u> |

8 Other income

| | Year ended December 31, | | |
|---|-------------------------|--------------|---------------|
| | 2012 | 2013 | 2014 |
| Gains from disposal of long-term non-financial assets | 130 | 42 | 4,129 |
| Rental income | 922 | 2,736 | 3,880 |
| Government grants | 6,035 | 1,920 | 1,352 |
| Others | 1,220 | 952 | 1,788 |
| | <u>8,307</u> | <u>5,650</u> | <u>11,149</u> |

9 Commission and fee expense

| | Year ended December 31, | | |
|---|-------------------------|---------------|----------------|
| | 2012 | 2013 | 2014 |
| Securities brokerage | 81,483 | 85,989 | 135,487 |
| Underwriting and sponsorship | 19,959 | 10,839 | 129,129 |
| Investment consultancy and financial advisory | — | 400 | 4,498 |
| | <u>101,442</u> | <u>97,228</u> | <u>269,114</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

10 Interest expense

| | Year ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2012 | 2013 | 2014 |
| Interest expense of bonds in issue | 41,104 | 40,992 | 64,778 |
| Interest expense of accounts payable to brokerage clients | 21,284 | 14,647 | 17,693 |
| Interest expense of financial assets sold under repurchase agreements | 2,214 | 47,536 | 86,113 |
| Interest expense of due to other financial institutions | 149 | 4,357 | 34,444 |
| | <u>64,751</u> | <u>107,532</u> | <u>203,028</u> |

11 Staff costs (including directors' and supervisors' remuneration)

| | Year ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2012 | 2013 | 2014 |
| Salaries and bonus | 214,840 | 180,319 | 300,565 |
| Pension | 33,184 | 39,064 | 41,308 |
| Other social security | 13,563 | 13,706 | 16,363 |
| Labor union funds and employee education funds | 5,789 | 6,684 | 6,275 |
| Other welfare | 5,963 | 10,190 | 10,625 |
| | <u>273,339</u> | <u>249,963</u> | <u>375,136</u> |

| Name | Year ended December 31, 2012 | | | | |
|---|------------------------------|--|------------|-----------------|--------------|
| | Remune - ration | Salaries, allowances and other welfares | Pension | Annual bonus | Total |
| Executive Directors | | | | | |
| Yao Zhiyong | — | 139 | 49 | 143 | 331 |
| Zhang Zhiwei (President) ⁽¹⁾ | — | 245 | 106 | — | 351 |
| Lei Jianhui (President) ⁽²⁾ | — | 269 | 112 | 285 | 666 |
| Non-executive Directors | | | | | |
| Hua Weirong | — | — | — | — | — |
| Jiang Zhijian | — | — | — | — | — |
| Liu Hailin | — | — | — | — | — |
| Zhu Zhangyao | — | — | — | — | — |
| Zhu Zhenwu | 80 | — | — | — | 80 |
| Yuan Yuan | 80 | — | — | — | 80 |
| Qian Zhixin | 87 | — | — | — | 87 |
| Supervisors | | | | | |
| Yin Zhuowei | — | 339 | 80 | — | 419 |
| Shan Xudong | — | 103 | 53 | 50 | 206 |
| Yang Xiaojun | — | — | — | — | — |
| Jin Guoxiang | — | — | — | — | — |
| | <u>247</u> | <u>1,095</u> | <u>400</u> | <u>478</u> | <u>2,220</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

11 Staff costs (including directors' and supervisors' remuneration) — continued

| Name | Year ended December 31, 2013 | | | | |
|-------------------------------------|------------------------------|---|------------|--------------|--------------|
| | Remuneration | Salaries, allowances and other welfares | Pension | Annual bonus | Total |
| Executive Directors | | | | | |
| Yao Zhiyong | — | 271 | 105 | 420 | 796 |
| Lei Jianhui(President) | — | 271 | 105 | 420 | 796 |
| Non-executive Directors | | | | | |
| Zhu Zhenwu | 80 | — | — | — | 80 |
| Yuan Yuan | 80 | — | — | — | 80 |
| Qian Zhixin | 73 | — | — | — | 73 |
| Hua Weirong | — | — | — | — | — |
| Jiang Zhijian | — | — | — | — | — |
| Liu Hailin | — | — | — | — | — |
| Zhu Zhaoyao | — | — | — | — | — |
| Supervisors | | | | | |
| Yin Zhuowei | — | 188 | 86 | 228 | 502 |
| Shan Xudong | — | 104 | 53 | 58 | 215 |
| Yang Xiaojun | — | — | — | — | — |
| Jin Guoxiang | — | — | — | — | — |
| Zhou Weixing ⁽³⁾ | — | — | — | — | — |
| | <u>233</u> | <u>834</u> | <u>349</u> | <u>1,126</u> | <u>2,542</u> |
| Year ended December 31, 2014 | | | | | |
| Name | Remuneration | Salaries, allowances and other welfares | Pension | Annual bonus | Total |
| Executive Directors | | | | | |
| Yao Zhiyong | — | 410 | 123 | 488 | 1,021 |
| Lei Jianhui (President) | — | 410 | 123 | 590 | 1,123 |
| Non-executive Directors | | | | | |
| Zhu Zhenwu | 80 | — | — | — | 80 |
| Chen Qingyuan | 13 | — | — | — | 13 |
| Wang Wei | 20 | — | — | — | 20 |
| Hua Weirong | — | — | — | — | — |
| Jiang Zhijian | — | — | — | — | — |
| Liu Hailin | — | — | — | — | — |
| Liu Gaoyuan | — | — | — | — | — |
| Supervisors | | | | | |
| Yin Zhuowei | — | 268 | 93 | 270 | 631 |
| Shan Xudong | — | 129 | 57 | 55 | 241 |
| Yang Xiaojun | — | — | — | — | — |
| Jin Guoxiang | — | — | — | — | — |
| Zhou Weixing | — | — | — | — | — |
| | <u>113</u> | <u>1,217</u> | <u>396</u> | <u>1,403</u> | <u>3,129</u> |

(1) Zhang Zhiwei ceased to be executive director and president effective from June 2012.

(2) Lei Jianhui was elected to be executive director and president effective from June 2012.

(3) Zhou Weixing was elected to be supervisor effective from April 2013.

II NOTES TO THE FINANCIAL INFORMATION — continued**11 Staff costs (including directors' and supervisors' remuneration) — continued**

11.1 The five highest paid individuals

For the years ended December 31, 2012, 2013 and 2014, the five highest paid individuals do not include any of the directors and supervisors.

Details of the remuneration for the five highest paid individuals for the relevant years are as follows:

| | Year ended December 31, | | |
|---|-------------------------|---------------|---------------|
| | 2012 | 2013 | 2014 |
| Salaries, allowances and other welfares | 9,265 | 5,760 | 10,497 |
| Bonus | 9,124 | 5,898 | 10,809 |
| | <u>18,389</u> | <u>11,658</u> | <u>21,306</u> |

11.2 The remuneration of the senior management and individuals by range:

| | Year ended December 31, | | |
|------------------------------------|-------------------------|----------|----------|
| | 2012 | 2013 | 2014 |
| RMB1,000,001 to RMB2,000,000 | — | 2 | — |
| RMB2,000,001 to RMB3,000,000 | — | 3 | 1 |
| RMB3,000,001 to RMB4,000,000 | 4 | — | 1 |
| RMB4,000,001 to RMB5,000,000 | 1 | — | 1 |
| RMB5,000,001 to RMB6,000,000 | — | — | 2 |
| | <u>5</u> | <u>5</u> | <u>5</u> |

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 amortization

| | Year ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 2012 | 2013 | 2014 |
| Depreciation of property and equipment | 23,593 | 22,251 | 17,404 |
| Amortization of intangible assets | 7,238 | 8,341 | 8,592 |
| Amortization of long-term prepaid expenses | 20,593 | 19,854 | 17,133 |
| | <u>51,424</u> | <u>50,446</u> | <u>43,129</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

13 Other operating expenses

| | Year ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2012 | 2013 | 2014 |
| Rentals | 44,381 | 51,418 | 53,160 |
| Business tax and surcharges | 29,940 | 48,478 | 94,643 |
| Office expenses | 55,095 | 42,994 | 51,914 |
| Travelling expenses | 24,249 | 23,591 | 20,454 |
| Marketing and distribution expenses | 26,850 | 21,656 | 20,097 |
| Consulting expenses | 8,532 | 9,179 | 5,287 |
| Securities investors protection fund | 8,460 | 7,029 | 8,392 |
| Electronic device operating costs | 8,774 | 6,420 | 13,032 |
| Professional service expenses | 938 | 1,619 | 1,760 |
| Auditors' remuneration – audit services | 1,030 | 1,041 | 1,070 |
| Foreign exchange losses/(gains), net | 39 | 306 | (40) |
| Listing expenses | — | — | 683 |
| Others | 17,693 | 22,775 | 23,647 |
| | <u>225,981</u> | <u>236,506</u> | <u>294,099</u> |

14 Impairment (losses)/reversal

| | Year ended December 31, | | |
|---|-------------------------|--------------|--------------|
| | 2012 | 2013 | 2014 |
| Accounts receivable | (780) | 269 | (517) |
| Available-for-sale financial assets | (221) | 1,532 | 234 |
| | <u>(1,001)</u> | <u>1,801</u> | <u>(283)</u> |

15 Income tax expense

| | Year ended December 31, | | |
|--------------------------------------|-------------------------|--------|---------|
| | 2012 | 2013 | 2014 |
| Current | | | |
| — Mainland China | 13,814 | 86,489 | 187,239 |
| Deferred | | | |
| — Mainland China (Note 27) | 5,564 | 4,447 | 45,508 |
| Income tax | | | |
| — Mainland China | 19,378 | 90,936 | 232,747 |

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.

II NOTES TO THE FINANCIAL INFORMATION — continued

15 Income tax expense — continued

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 December 31, | | |
|--|-------------------------|---------------|----------------|
| | 2012 | 2013 | 2014 |
| Profit before income tax | 65,958 | 350,710 | 963,125 |
| Tax calculated at applicable statutory tax rate of 25% | 16,490 | 87,677 | 240,781 |
| Income not subject to tax | (5,482) | (3,050) | (5,287) |
| Items not deductible for tax purposes | 2,344 | 9,066 | 1,011 |
| Tax losses for which no deferred income tax asset was recognized | 6,047 | — | — |
| Utilization of previously unrecognised tax losses | — | (3,591) | (4,712) |
| Adjustments in respect of prior years | (21) | 834 | 954 |
| | <u>19,378</u> | <u>90,936</u> | <u>232,747</u> |

There was no deferred income tax asset recognized in 2012 as the future taxable profit which can be deducted from the temporary difference and deductible loss is unpredictable. Deductible losses that are not recognized as deferred tax assets will be expired as follows:

| | Year ended December 31, | | |
|--------------------------------|-------------------------|--------------|----------|
| | 2012 | 2013 | 2014 |
| Within one year | — | — | — |
| Between 1 to 2 years | — | — | — |
| Between 2 to 3 years | — | — | — |
| Between 3 to 4 years | 2,256 | 4,712 | — |
| Between 4 to 5 years | 6,047 | — | — |
| | <u>8,303</u> | <u>4,712</u> | <u>—</u> |

16 (Loss)/Profit attributable to non-controlling interests

| | Year ended December 31, | | |
|--------------------------------------|-------------------------|--------------|---------------|
| | 2012 | 2013 | 2014 |
| HuaYing Securities Co., Ltd. | (8,217) | 1,203 | 15,423 |
| Guolian Futures Co., Ltd. | 6,369 | 1,822 | — |
| | <u>(1,848)</u> | <u>3,025</u> | <u>15,423</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

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 December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2012 | 2013 | 2014 |
| Profit attributable to shareholders of the Company (in RMB thousands) | | | |
| — Continuing operations | 54,797 | 258,571 | 714,955 |
| — Discontinued operations | 39,123 | 11,192 | — |
| Weighted average number of ordinary shares in issue (in thousands) | 1,500,000 | 1,500,000 | 1,500,000 |
| Basic earnings per share (in RMB) | | | |
| — Continuing operations | 0.04 | 0.17 | 0.48 |
| — Discontinued operations | 0.03 | 0.01 | — |

17.2 Diluted earnings per share

For the years ended December 31, 2012, 2013 and 2014, 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 Group and the Company

| | Year ended December 31, | | |
|---------------------------------------|-------------------------|--------|--------|
| | 2012 | 2013 | 2014 |
| Dividends paid for the year | 45,000 | 30,000 | 60,000 |
| Dividends per ordinary share (in RMB) | 0.03 | 0.02 | 0.04 |

Under the “Company Law” of the PRC, the Group’s Articles of Association and in accordance with the requirements of CSRC, 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 surplus 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.

II NOTES TO THE FINANCIAL INFORMATION — continued

19 Property, plant and equipment

The Group

| | <u>Buildings</u> | <u>Motor vehicles</u> | <u>Electronics and other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------------|--|------------------|
| Cost | | | | |
| January 1, 2012 | 158,766 | 6,649 | 131,967 | 297,382 |
| Additions | — | 4,095 | 4,200 | 8,295 |
| Disposals | — | (348) | (6,629) | (6,977) |
| December 31, 2012 | <u>158,766</u> | <u>10,396</u> | <u>129,538</u> | <u>298,700</u> |
| Accumulated depreciation | | | | |
| January 1, 2012 | (57,262) | (3,506) | (90,633) | (151,401) |
| Additions | (5,540) | (1,379) | (16,674) | (23,593) |
| Disposals | — | 333 | 6,519 | 6,852 |
| December 31, 2012 | <u>(62,802)</u> | <u>(4,552)</u> | <u>(100,788)</u> | <u>(168,142)</u> |
| Carrying amount | | | | |
| December 31, 2012 | <u>95,964</u> | <u>5,844</u> | <u>28,750</u> | <u>130,558</u> |

The Group

| | <u>Buildings</u> | <u>Motor vehicles</u> | <u>Electronics and other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------------|--|------------------|
| Cost | | | | |
| January 1, 2013 | 158,766 | 10,396 | 129,538 | 298,700 |
| Additions | 552 | — | 8,365 | 8,917 |
| Disposals | — | — | (2,266) | (2,266) |
| December 31, 2013 | <u>159,318</u> | <u>10,396</u> | <u>135,637</u> | <u>305,351</u> |
| Accumulated depreciation | | | | |
| January 1, 2013 | (62,802) | (4,552) | (100,788) | (168,142) |
| Additions | (5,577) | (1,474) | (15,200) | (22,251) |
| Disposals | — | — | 2,071 | 2,071 |
| December 31, 2013 | <u>(68,379)</u> | <u>(6,026)</u> | <u>(113,917)</u> | <u>(188,322)</u> |
| Carrying amount | | | | |
| December 31, 2013 | <u>90,939</u> | <u>4,370</u> | <u>21,720</u> | <u>117,029</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

19 Property, plant and equipment — continued

The Group

| | <u>Buildings</u> | <u>Motor vehicles</u> | <u>Electronics and other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------------|--|------------------|
| Cost | | | | |
| January 1, 2014 | 159,318 | 10,396 | 135,637 | 305,351 |
| Additions | — | — | 9,607 | 9,607 |
| Disposals | <u>(4,015)</u> | <u>—</u> | <u>(6,842)</u> | <u>(10,857)</u> |
| December 31, 2014 | <u>155,303</u> | <u>10,396</u> | <u>138,402</u> | <u>304,101</u> |
| Accumulated depreciation | | | | |
| January 1, 2014 | (68,379) | (6,026) | (113,917) | (188,322) |
| Additions | (5,381) | (1,373) | (10,650) | (17,404) |
| Disposals | <u>759</u> | <u>—</u> | <u>5,518</u> | <u>6,277</u> |
| December 31, 2014 | <u>(73,001)</u> | <u>(7,399)</u> | <u>(119,049)</u> | <u>(199,449)</u> |
| Carrying amount | | | | |
| December 31, 2014 | <u>82,302</u> | <u>2,997</u> | <u>19,353</u> | <u>104,652</u> |

The Company

| | <u>Buildings</u> | <u>Motor vehicles</u> | <u>Electronics and other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------------|--|------------------|
| Cost | | | | |
| January 1, 2012 | 158,766 | 6,249 | 126,919 | 291,934 |
| Additions | — | 1,116 | 3,419 | 4,535 |
| Disposals | <u>—</u> | <u>(348)</u> | <u>(6,629)</u> | <u>(6,977)</u> |
| December 31, 2012 | <u>158,766</u> | <u>7,017</u> | <u>123,709</u> | <u>289,492</u> |
| Accumulated depreciation | | | | |
| January 1, 2012 | (57,262) | (3,456) | (89,971) | (150,689) |
| Additions | (5,540) | (857) | (15,051) | (21,448) |
| Disposals | <u>—</u> | <u>333</u> | <u>6,519</u> | <u>6,852</u> |
| December 31, 2012 | <u>(62,802)</u> | <u>(3,980)</u> | <u>(98,503)</u> | <u>(165,285)</u> |
| Carrying amount | | | | |
| December 31, 2012 | <u>95,964</u> | <u>3,037</u> | <u>25,206</u> | <u>124,207</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

19 Property, plant and equipment — continued

The Company

| | <u>Buildings</u> | <u>Motor vehicles</u> | <u>Electronics and other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------------|--|------------------|
| Cost | | | | |
| January 1, 2013 | 158,766 | 7,017 | 123,709 | 289,492 |
| Additions | 552 | — | 8,271 | 8,823 |
| Disposals | — | — | (2,266) | (2,266) |
| December 31, 2013 | <u>159,318</u> | <u>7,017</u> | <u>129,714</u> | <u>296,049</u> |
| Accumulated depreciation | | | | |
| January 1, 2013 | (62,802) | (3,980) | (98,503) | (165,285) |
| Additions | (5,577) | (758) | (13,463) | (19,798) |
| Disposals | — | — | 2,071 | 2,071 |
| December 31, 2013 | <u>(68,379)</u> | <u>(4,738)</u> | <u>(109,895)</u> | <u>(183,012)</u> |
| Carrying amount | | | | |
| December 31, 2013 | <u>90,939</u> | <u>2,279</u> | <u>19,819</u> | <u>113,037</u> |

The Company

| | <u>Buildings</u> | <u>Motor vehicles</u> | <u>Electronics and other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------------|--|------------------|
| Cost | | | | |
| January 1, 2014 | 159,318 | 7,017 | 129,714 | 296,049 |
| Additions | — | — | 9,286 | 9,286 |
| Disposals | (4,015) | — | (6,758) | (10,773) |
| December 31, 2014 | <u>155,303</u> | <u>7,017</u> | <u>132,242</u> | <u>294,562</u> |
| Accumulated depreciation | | | | |
| January 1, 2014 | (68,379) | (4,738) | (109,895) | (183,012) |
| Additions | (5,381) | (657) | (9,403) | (15,441) |
| Disposals | 759 | — | 5,434 | 6,193 |
| December 31, 2014 | <u>(73,001)</u> | <u>(5,395)</u> | <u>(113,864)</u> | <u>(192,260)</u> |
| Carrying amount | | | | |
| December 31, 2014 | <u>82,302</u> | <u>1,622</u> | <u>18,378</u> | <u>102,302</u> |

For the years ended December 31, 2014 and December 31, 2013, gains from disposal of fixed assets amounted to RMB12 thousand and RMB8 thousand respectively. For the year ended December 31, 2012, losses from disposal of fixed assets amounted to RMB330 thousand.

All buildings of the Group are located outside Hong Kong.

20 Goodwill

Goodwill of the Group arose from its acquisition of two securities branches. The Group recognized the excess of acquisition cost over the fair value of the net identifiable assets acquired as the goodwill, amounting to RMB10,316 thousand. These two securities branches were considered to be one cash-generating unit (CGU).

II NOTES TO THE FINANCIAL INFORMATION — continued

20 Goodwill — continued

Based on value in use calculations, it was estimated that the recoverable amount of the CGU didn't exceed its carrying amount. Therefore, goodwill impairment was fully provided.

21 Intangible assets

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-----------------------------|----------------------|----------------------|----------------------|
| Net Book Value | | | |
| Computer software | 9,894 | 11,435 | 23,691 |
| Trading rights | 500 | 440 | 380 |
| | <u>10,394</u> | <u>11,875</u> | <u>24,071</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-----------------------------|----------------------|----------------------|----------------------|
| Net Book Value | | | |
| Computer software | 8,238 | 11,330 | 23,691 |
| Trading rights | — | — | — |
| | <u>8,238</u> | <u>11,330</u> | <u>23,691</u> |

The Group

| | 2012 | 2013 | 2014 |
|--|-----------------|-----------------|-----------------|
| Cost | | | |
| Balance at beginning of year | 19,808 | 27,260 | 37,082 |
| Additions | 7,452 | 9,822 | 20,788 |
| Disposal | — | — | — |
| Balance at end of year | <u>27,260</u> | <u>37,082</u> | <u>57,870</u> |
| Accumulated amortization | | | |
| Balance at beginning of year | (9,628) | (16,866) | (25,207) |
| Charges | (7,238) | (8,341) | (8,592) |
| Disposal | — | — | — |
| Balance at end of year | <u>(16,866)</u> | <u>(25,207)</u> | <u>(33,799)</u> |
| Carrying amount | | | |
| Balance at end of year | <u>10,394</u> | <u>11,875</u> | <u>24,071</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

21 Intangible assets — continued

The Company

| | 2012 | 2013 | 2014 |
|--|-----------------|-----------------|-----------------|
| Cost | | | |
| Balance at beginning of year | 17,095 | 23,287 | 33,109 |
| Additions | 6,192 | 9,822 | 20,788 |
| Disposal | — | — | — |
| Balance at end of year | <u>23,287</u> | <u>33,109</u> | <u>53,897</u> |
| Accumulated amortization | | | |
| Balance at beginning of year | (9,453) | (15,049) | (21,779) |
| Charges | (5,596) | (6,730) | (8,427) |
| Disposal | — | — | — |
| Balance at end of year | <u>(15,049)</u> | <u>(21,779)</u> | <u>(30,206)</u> |
| Carrying amount | | | |
| Balance at end of year | <u>8,238</u> | <u>11,330</u> | <u>23,691</u> |

22 Investments in subsidiaries and consolidated structured entities

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| HuaYing Securities Co., Ltd. | 533,600 | 533,600 | 533,600 |
| Guolian Tongbao Capital Investment Co., Ltd. | 200,000 | 200,000 | 200,000 |
| Consolidated structured entities (Note 22.3) | — | 186,548 | 337,560 |
| | <u>733,600</u> | <u>920,148</u> | <u>1,071,160</u> |

22.1 General information of major subsidiaries

The following were major subsidiaries of the Group as at December 31, 2012, 2013 and 2014. 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. 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 |
|--|-----------------------|-----------------------|--------------------|-----------------------------------|-------------------|-------------------|------------------------------|--------------------------------|
| | | | | December 31, 2012 | December 31, 2013 | December 31, 2014 | | |
| HuaYing Securities Co., Ltd. | Apr-11 | Wuxi, PRC | 800,000 | 66.70% | 66.70% | 66.70% | Underwriting and sponsorship | Direct |
| Guolian Tongbao Capital Investment Co., Ltd. | Jan-10 | Wuxi, PRC | 200,000 | 100.00% | 100.00% | 100.00% | Investment holding | Direct |
| Guolian Futures Co., Ltd. | Apr-93 | Wuxi, PRC | 200,000 | 86.00% | — | — | Futures brokerage | Direct |

II NOTES TO THE FINANCIAL INFORMATION — continued

22 Investments in subsidiaries and consolidated structured entities — continued

22.1 General information of major subsidiaries — continued

The Group intended to dispose its equity interest in Guolian Futures Co., Ltd (“Guolian Futures”) entirely to Wuxi Guolian Development (Group) Co., Ltd (“Guolian Group”) in 2012. Upon approval by CSRC on August 2013, the transaction was fully settled for a consideration of approximately RMB224,021 thousand. The Group didn’t hold any equity interest of Guolian Futures ever since (Note 37).

22.2 Material non-controlling interests

Set out below is the summarized financial information for a 66.7% owned subsidiary, HuaYing Securities, which has non-controlling interests that are material to the Group. The amounts disclosed below are before inter-company eliminations.

(1) Summarized statements of financial position

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------|-----------|
| | 2012 | 2013 | 2014 |
| Non-Current assets | 9,445 | 5,374 | 13,749 |
| Current assets | 772,556 | 938,723 | 910,271 |
| Total assets | 782,001 | 944,097 | 924,020 |
| Non-Current liabilities | — | — | (225) |
| Current liabilities | (30,713) | (189,255) | (122,699) |
| Total liabilities | (30,713) | (189,255) | (122,924) |
| Net assets | 751,288 | 754,842 | 801,096 |

(2) Summarized statements of comprehensive income

| | Year ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2012 | 2013 | 2014 |
| Revenue | 136,572 | 126,616 | 215,700 |
| (Loss)/Profit before income tax | (24,734) | 3,553 | 54,606 |
| Income tax expense | — | — | (8,352) |
| Post-tax (loss)/profit from continuing operations | (24,734) | 3,553 | 46,254 |
| Post-tax profit from discontinued operations | — | — | — |
| Other comprehensive income | — | — | — |
| Total comprehensive income | (24,734) | 3,553 | 46,254 |
| Total comprehensive income allocated to non-controlling interests | (8,236) | 1,183 | 15,403 |
| Dividends paid to non-controlling interests | — | — | — |

II NOTES TO THE FINANCIAL INFORMATION — continued

22 Investments in subsidiaries and consolidated structured entities — continued

22.2 Material non-controlling interests — continued

(3) Summarized statements of cash flows

| | Year ended December 31, | | |
|--|-------------------------|-----------|----------|
| | 2012 | 2013 | 2014 |
| Cash (used in)/generated from operations | (224) | (183,801) | 53,101 |
| Interest paid | (2,214) | (4,086) | (7,219) |
| Income tax paid | (6,037) | (7,895) | (22,687) |
| Net cash (used in)/generated from operating activities | (8,475) | (195,782) | 23,195 |
| Net cash used in investing activities | (7,088) | (119) | (10,316) |
| Net cash used in financing activities | — | — | — |
| Net (decrease)/increase in cash and cash equivalents | (15,563) | (195,901) | 12,879 |
| Cash and cash equivalents at beginning of year | 770,872 | 755,309 | 559,407 |
| Cash and cash equivalents at end of year | 755,309 | 559,408 | 572,286 |

22.3 Consolidated structured entities

As at December 31, 2012, total assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

| | <u>Total assets</u> | <u>Initial investment</u> | <u>Maximum exposure</u> |
|--|---------------------|---------------------------|-------------------------|
| Investments in consolidated SE by a subsidiary | | | |
| Yulinglong No.1 | <u>99,747</u> | <u>71,908</u> | <u>72,054</u> |

As at December 31, 2013, total assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

| | <u>Total assets</u> | <u>Initial investment</u> | <u>Maximum exposure</u> |
|--|---------------------|---------------------------|-------------------------|
| Investments in consolidated SEs by the Company | | | |
| Huifu No.1 | 500,505 | 57,000 | 55,487 |
| Jinrui No.5 | 273,453 | 31,095 | 29,687 |
| Xianjintianli No.1 | 214,900 | 10,000 | 10,000 |
| Jinrui No.6 | 207,716 | 28,306 | 26,178 |
| Huijin No.15 | 65,852 | 3,550 | 3,613 |
| Yulinglong Xiaofeijingxuan | 62,264 | 12,750 | 12,363 |
| Yulinglong Shijianqudong | 31,223 | 6,370 | 6,105 |
| Dingzengjingxuan No.1 | 97,912 | 19,467 | 19,533 |
| Yuruyi No.1 | 195,837 | 5,190 | 6,996 |
| Yuruyi No.2 | 175,521 | 3,820 | 3,849 |
| Huijin No.10 | 109,427 | 9,000 | 20,926 |
| | <u>1,934,610</u> | <u>186,548</u> | <u>194,737</u> |
| | <u>Total assets</u> | <u>Initial investment</u> | <u>Maximum exposure</u> |
| Investments in consolidated SE by a subsidiary | | | |
| Huijin No.15 | <u>65,852</u> | <u>1,000</u> | <u>952</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

22 Investments in subsidiaries and consolidated structured entities — continued

22.3 Consolidated structured entities — continued

As at December 31, 2014, total assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

| | <u>Total assets</u> | <u>Initial investment</u> | <u>Maximum exposure</u> |
|---|---------------------|---------------------------|-------------------------|
| Investments in consolidated SEs by the Company | | | |
| Huifu No.1 | 1,630,974 | 173,133 | 178,763 |
| Xianjintianli No.1 | 525,772 | 10,000 | 10,000 |
| Jinrui No.5 | 280,984 | 40,066 | 50,345 |
| Jinrui No.6 | 209,126 | 22,735 | 31,368 |
| Huijin No.15 | 63,789 | 3,550 | 4,956 |
| Huijin No.27 | 32,697 | 3,625 | 3,942 |
| Yulinglong Xiaofeijingxuan | 1,693 | 250 | 253 |
| Yulinglong Shijianqudong | 7,220 | 1,340 | 1,310 |
| Dingzengbao No.1 | 69,998 | 13,560 | 13,937 |
| Dingzengjingxuan No.1 | 112,617 | 19,467 | 23,360 |
| Yuruyi No.1 | 97,252 | 11,735 | 14,466 |
| Yuruyi No.2 | 272,239 | 27,598 | 35,140 |
| Yuruyi No.3 | 75,023 | 7,499 | 7,721 |
| Zhiyabao No.1 | 30,159 | 3,002 | 3,008 |
| | <u>3,409,543</u> | <u>337,560</u> | <u>378,569</u> |
| | <u>Total assets</u> | <u>Initial investment</u> | <u>Maximum exposure</u> |
| Investments in consolidated SEs by a subsidiary | | | |
| Huijin No.15 | 63,789 | 1,000 | 1,396 |
| Huijin No.20 | 30,102 | 26,700 | 26,745 |
| Yulinglong Shijianqudong | 7,220 | 3,000 | 3,026 |
| Dingzengjingxuan No.5 | 372 | 97 | 95 |
| Dingzengjingxuan No.6 | 209 | 100 | 78 |
| Yuruyi No.5 | 210,900 | 50,000 | 50,000 |
| | <u>312,592</u> | <u>80,897</u> | <u>81,340</u> |

All of the above consolidated SEs were collective asset management schemes where the Company has been involved as manager. As at December 31, 2012, 2013 and 2014, the Company's initial investment is nil, RMB186,548 thousand and RMB337,560 thousand, while initial investments of the Company's subsidiary, Guolian Tongbao Capital Investment Co., Ltd, a subsidiary of the Company is RMB71,908 thousand, RMB1,000 thousand and RMB80,897 thousand respectively. The initial investment of the Company are included in "investments in consolidated structured entities" in the statement of financial position of the Company.

II NOTES TO THE FINANCIAL INFORMATION — continued

23 Investments in associates

Set out below are the associates of the Group as at December 31, 2014, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at December 31, 2014, 2013 and 2012

| <u>Name of Entity</u> | <u>Place of business/ country of incorporation</u> | <u>% of ownership interest</u> | <u>Nature of the relationship</u> | <u>Measurement method</u> |
|--|--|--|---|-------------------------------|
| Wuxi Taihu Yangshan Peach Technology Co., Ltd. | China | 26.00 | Note 1 | Equity |
| Zhonghai Fund Management Co., Ltd. | China | 33.41 | Note 2 | Equity |
| Wuxi Guolian Lingxiang SME Investment Company (L.P.) | China | 33.33 | Note 3 | Equity |

Note 1: Wuxi Taihu Yangshan Peach Technology Co., Ltd. is an ecological agricultural company, held by Guolian Tongbao Capital Investment Co., Ltd., which provides peach cultivation services to consumers.

Note 2: Zhonghai Fund Management Co., Ltd., held by the Company, provides funds distribution, asset management and other services authorized by the CSRC.

Note 3: Wuxi Guolian Lingxiang SME Investment Company (L.P.) is an limited partnership, held by Guolian Tongbao Capital Investment Co., Ltd., which mainly invests in small and medium enterprises.

All the entities are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.

The Group

| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---|----------------|----------------|----------------|
| At January 1 | 164,078 | 165,714 | 178,763 |
| Additional investments | — | — | 4,000 |
| Share of profit | 11,457 | 11,166 | 16,258 |
| Share of other comprehensive income | 955 | 1,883 | 6,272 |
| Dividend received | (10,776) | — | (9,892) |
| At December 31 | <u>165,714</u> | <u>178,763</u> | <u>195,401</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

23 Investments in associates — continued

The Company

| | 2012 | 2013 | 2014 |
|-------------------------------------|----------------|----------------|----------------|
| At January 1 | 149,654 | 149,504 | 162,251 |
| Share of profit | 9,671 | 10,864 | 15,678 |
| Share of other comprehensive income | 955 | 1,883 | 6,272 |
| Dividend received | (10,776) | — | (9,892) |
| At December 31 | <u>149,504</u> | <u>162,251</u> | <u>174,309</u> |

The results of the Group's principal associate, and its aggregated assets (including goodwill) and liabilities, are as follows:

| Wuxi Taihu Yangshan Peach Technology Co., Ltd. | | | |
|---|---------|---------|---------|
| Year ended December 31, | | | |
| | 2012 | 2013 | 2014 |
| Carrying amount of total assets | 103,789 | 120,201 | 111,282 |
| Carrying amount of net assets | 62,347 | 63,509 | 65,342 |
| Amounts of the Group's share thereon | 16,210 | 16,512 | 16,988 |
| Profit for the year | 6,866 | 1,162 | 1,833 |
| Other comprehensive income | — | — | — |
| Amounts of the Group's share profit for the year | 1,785 | 302 | 477 |
| Amounts of the Group's share other comprehensive income | — | — | — |

| Zhonghai Fund Management Co., Ltd. | | | |
|---|---------|---------|---------|
| Year ended December 31, | | | |
| | 2012 | 2013 | 2014 |
| Carrying amount of total assets | 479,574 | 549,569 | 655,713 |
| Carrying amount of net assets | 447,496 | 485,651 | 521,742 |
| Amounts of the Group's share thereon | 149,504 | 162,251 | 174,309 |
| Profit for the year | 28,950 | 32,519 | 46,927 |
| Other comprehensive income | 2,858 | 5,636 | 18,774 |
| Amounts of the Group's share profit for the year | 9,762 | 10,864 | 15,678 |
| Amounts of the Group's share other comprehensive income | 955 | 1,883 | 6,272 |

| Wuxi Guolian Lingxiang SME Investment Company (L.P.) | | | |
|---|------|------|--------|
| Year ended December 31, | | | |
| | 2012 | 2013 | 2014 |
| Carrying amount of total assets | — | — | 12,316 |
| Carrying amount of net assets | — | — | 12,312 |
| Amounts of the Group's share thereon | — | — | 4,104 |
| Profit for the year | — | — | 312 |
| Other comprehensive income | — | — | — |
| Amounts of the Group's share profit for the year | — | — | 104 |
| Amounts of the Group's share other comprehensive income | — | — | — |

II NOTES TO THE FINANCIAL INFORMATION — continued

24 Other non-current assets

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Long-term prepaid assets ⁽¹⁾ | <u>61,039</u> | <u>40,613</u> | <u>23,541</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Long-term prepaid assets ⁽¹⁾ | <u>55,764</u> | <u>37,551</u> | <u>21,990</u> |

(1) Long-term prepaid assets

The Group

| | 2012 | 2013 | 2014 |
|------------------------------------|-----------------|-----------------|-----------------|
| Balance at beginning of year | 73,897 | 61,039 | 40,613 |
| Additions | 7,735 | 3,246 | 2,577 |
| Disposal | — | (3,818) | (2,516) |
| Amortization | <u>(20,593)</u> | <u>(19,854)</u> | <u>(17,133)</u> |
| Balance at end of year | <u>61,039</u> | <u>40,613</u> | <u>23,541</u> |

The Company

| | 2012 | 2013 | 2014 |
|------------------------------------|-----------------|-----------------|-----------------|
| Balance at beginning of year | 70,995 | 55,764 | 37,551 |
| Additions | 3,150 | 3,064 | 2,577 |
| Disposal | — | (3,726) | (2,516) |
| Amortization | <u>(18,381)</u> | <u>(17,551)</u> | <u>(15,622)</u> |
| Balance at end of year | <u>55,764</u> | <u>37,551</u> | <u>21,990</u> |

25 Available-for-sale financial assets

Non-current assets

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| At fair value | | | |
| Investment in unlisted companies | — | 38,852 | 38,852 |
| Trust schemes | 5,000 | 18,000 | — |
| Collective asset management schemes | <u>11,563</u> | <u>22,617</u> | <u>41,032</u> |
| | <u>16,563</u> | <u>79,469</u> | <u>79,884</u> |
| Analysed as | | | |
| Listed outside Hong Kong | — | — | — |
| Unlisted | <u>16,563</u> | <u>79,469</u> | <u>79,884</u> |
| | <u>16,563</u> | <u>79,469</u> | <u>79,884</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

25 Available-for-sale financial assets — continued

Non-current assets — continued

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| At fair value | | | |
| Investment in unlisted companies | — | 24,000 | 24,000 |
| Collective asset management schemes | 11,563 | 8,295 | 41,032 |
| | <u>11,563</u> | <u>32,295</u> | <u>65,032</u> |
| Analysed as | | | |
| Listed outside Hong Kong | — | — | — |
| Unlisted | 11,563 | 32,295 | 65,032 |
| | <u>11,563</u> | <u>32,295</u> | <u>65,032</u> |

Current assets

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| At fair value | | | |
| Equity securities | 67,884 | 245,306 | 630,073 |
| Investment funds | 23,056 | 1,213 | 154,345 |
| Trust schemes | — | — | 13,000 |
| Collective asset management scheme | 10,468 | — | 11,771 |
| | <u>101,408</u> | <u>246,519</u> | <u>809,189</u> |
| Analysed as | | | |
| Listed outside Hong Kong | 90,940 | 246,519 | 784,418 |
| Unlisted | 10,468 | — | 24,771 |
| | <u>101,408</u> | <u>246,519</u> | <u>809,189</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--------------------------------|----------------------|----------------------|----------------------|
| At fair value | | | |
| Equity securities | 67,884 | 245,306 | 630,073 |
| Investment funds | 23,056 | 1,213 | 154,345 |
| | <u>90,940</u> | <u>246,519</u> | <u>784,418</u> |
| Analysed as | | | |
| Listed outside Hong Kong | 90,940 | 246,519 | 784,418 |
| Unlisted | — | — | — |
| | <u>90,940</u> | <u>246,519</u> | <u>784,418</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued**25 Available-for-sale financial assets — continued****Current assets — continued**

As at December 31, 2012, 2013 and 2014, available-for-sale financial assets for the Group and the Company included securities lent to clients of RMB1,320 thousand, RMB3,449 thousand and RMB61,866 thousand respectively.

As at December 31, 2012 and 2013, no securities of the Group and the Company is placed as collateral. As at December 31, 2014, the fair value of securities of the Group and the Company which have been placed as collateral is RMB255,613 thousand.

Those “listed outside Hong Kong” include securities and investment funds traded over Shanghai and Shenzhen Stock Exchanges.

26 Held-to-maturity financial assets**The Group and The Company**

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-------------------------------------|----------------------|----------------------|----------------------|
| Corporate bonds | — | — | 10,000 |
| Less: Non-current portion | — | — | 10,000 |
| Current portion | — | — | — |
| | <u>—</u> | <u>—</u> | <u>—</u> |

As at December 31, 2014, the held-to-maturity financial asset comprises government bond issued by Jiangsu Provincial Government and the carry coupon rate is 4.06% per annum with maturity date on July 25, 2019.

As at December 31, 2014, no securities of the Group and the Company classified as held-to-maturity financial assets is placed as collateral.

27 Deferred income tax assets and liabilities

(1) The net movements on the deferred income tax account are as follows:

The Group

| | Year ended December 31, | | |
|---|-------------------------|------------|------------------|
| | 2012 | 2013 | 2014 |
| Balance at beginning of year | 16,804 | 8,794 | 953 |
| Income statement charge (Note 15) | (5,564) | (4,447) | (45,508) |
| Tax charge relating to components of other comprehensive income | (2,446) | (3,394) | (70,493) |
| Balance at end of year | <u>8,794</u> | <u>953</u> | <u>(115,048)</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

27 Deferred income tax assets and liabilities — continued

The Company

| | Year ended December 31, | | |
|---|-------------------------|--------------|-----------------|
| | 2012 | 2013 | 2014 |
| Balance at beginning of year | 16,846 | 8,865 | 1,085 |
| Income statement charge | (5,689) | (4,265) | (22,652) |
| Tax charge relating to components of other comprehensive income | (2,292) | (3,515) | (70,564) |
| Balance at end of year | <u>8,865</u> | <u>1,085</u> | <u>(92,131)</u> |

(2) The gross movements in deferred income tax assets during the year are as follows:

The Group

| | Impairment losses | Changes in fair value of financial assets at fair value through profit or loss | Changes in fair value of derivatives | Tax losses | Other | Total |
|---|----------------------|---|--|--------------|--------------|---------------|
| As at January 1, 2012 | 560 | 15,030 | — | — | 2,174 | 17,764 |
| Income statement charge ... | 163 | (6,171) | 1,531 | — | (1,087) | (5,564) |
| Tax charge relating to components of other comprehensive income ... | — | — | — | — | — | — |
| As at December 31, 2012 .. | <u>723</u> | <u>8,859</u> | <u>1,531</u> | <u>—</u> | <u>1,087</u> | <u>12,200</u> |
| Income statement charge ... | (450) | (7,523) | (1,531) | 1,965 | 3,092 | (4,447) |
| Tax charge relating to components of other comprehensive income ... | — | — | — | — | — | — |
| As at December 31, 2013 .. | <u>273</u> | <u>1,336</u> | <u>—</u> | <u>1,965</u> | <u>4,179</u> | <u>7,753</u> |
| Income statement charge ... | 27 | (1,336) | 537 | (1,965) | (1,189) | (3,926) |
| Tax charge relating to components of other comprehensive income ... | — | — | — | — | — | — |
| As at December 31, 2014 .. | <u>300</u> | <u>—</u> | <u>537</u> | <u>—</u> | <u>2,990</u> | <u>3,827</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

27 Deferred income tax assets and liabilities — continued

The gross movements in deferred income tax assets during the year are as follows:

The Company

| | Impairment losses | Changes in fair value of financial assets at fair value through profit or loss | Changes in fair value of derivatives | Other | Total |
|---|----------------------|---|---|---------------------|---------------------|
| As at January 1, 2012 | 560 | 15,030 | — | 2,174 | 17,764 |
| Income statement charge | 38 | (6,171) | 1,531 | (1,087) | (5,689) |
| Tax charge relating to components of other comprehensive income | — | — | — | — | — |
| As at December 31, 2012 | <u>598</u> | <u>8,859</u> | <u>1,531</u> | <u>1,087</u> | <u>12,075</u> |
| Income statement charge | (338) | (7,523) | (1,531) | 5,127 | (4,265) |
| Tax charge relating to components of other comprehensive income | — | — | — | — | — |
| As at December 31, 2013 | <u>260</u> | <u>1,336</u> | — | <u>6,214</u> | <u>7,810</u> |
| Income statement charge | 102 | (1,336) | 537 | (3,137) | (3,834) |
| Tax charge relating to components of other comprehensive income | — | — | — | — | — |
| As at December 31, 2014 | <u><u>362</u></u> | <u><u>—</u></u> | <u><u>537</u></u> | <u><u>3,077</u></u> | <u><u>3,976</u></u> |

The gross movements in deferred income tax liabilities during the year are as follows:

The Group

| | Changes in fair value of available-for-sale financial assets | Changes in fair value of financial assets at fair value through profit or loss | Other | Total |
|--|---|---|----------------------|-----------------------|
| Cost | | | | |
| As at January 1, 2012 | 960 | — | — | 960 |
| Income statement charge | — | — | — | — |
| Tax charge relating to components of other comprehensive income | 2,446 | — | — | 2,446 |
| As at December 31, 2012 | <u>3,406</u> | — | — | <u>3,406</u> |
| Income statement charge | — | — | — | — |
| Tax charge relating to components of other comprehensive income | 3,394 | — | — | 3,394 |
| As at December 31, 2013 | <u>6,800</u> | — | — | <u>6,800</u> |
| Income statement charge | — | 19,042 | 22,540 | 41,582 |
| Tax charge relating to components of other comprehensive income | 70,493 | — | — | 70,493 |
| As at December 31, 2014 | <u><u>77,293</u></u> | <u><u>19,042</u></u> | <u><u>22,540</u></u> | <u><u>118,875</u></u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

27 Deferred income tax assets and liabilities — continued

The Company

| | Changes in fair value of available-for-sale financial assets | Changes in fair value of financial assets held for trading | Other | Total |
|--|---|---|-------|--------|
| Cost | | | | |
| As at January 1, 2012 | 918 | — | — | 918 |
| Income statement charge | — | — | — | — |
| Tax charge relating to components of other comprehensive income | 2,292 | — | — | 2,292 |
| As at December 31, 2012 | 3,210 | — | — | 3,210 |
| Income statement charge | — | — | — | — |
| Tax charge relating to components of other comprehensive income | 3,515 | — | — | 3,515 |
| As at December 31, 2013 | 6,725 | — | — | 6,725 |
| Income statement charge | — | 18,818 | — | 18,818 |
| Tax charge relating to components of other comprehensive income | 70,564 | — | — | 70,564 |
| As at December 31, 2014 | 77,289 | 18,818 | — | 96,107 |

(3) Net amount of deferred income tax assets and liabilities after offsetting

The Group

| | Year ended December 31, | | |
|---------------------------------------|-------------------------|-------|---------|
| | 2012 | 2013 | 2014 |
| Deferred income tax assets | 9,782 | 3,000 | — |
| Deferred income tax liabilities | 988 | 2,047 | 115,048 |

The Company

| | Year ended December 31, | | |
|---------------------------------------|-------------------------|-------|--------|
| | 2012 | 2013 | 2014 |
| Deferred income tax assets | 8,865 | 1,085 | — |
| Deferred income tax liabilities | — | — | 92,131 |

As at December 2012, 2013 and 2014, the deferred income tax assets and the deferred income liabilities will be recovered within 12 months.

II NOTES TO THE FINANCIAL INFORMATION — continued

28 Refundable deposits

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Deposits to Stock Exchanges | | | |
| — Shanghai Stock Exchange | 10,472 | 18,837 | 23,958 |
| — Shenzhen Stock Exchange | 81,853 | 15,316 | 50,780 |
| Deposits to Futures and Commodities Exchanges | | | |
| — China Financial Futures Exchange | 14,388 | — | 13,345 |
| | <u>106,713</u> | <u>34,153</u> | <u>88,083</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Deposits to Stock Exchanges | | | |
| — Shanghai Stock Exchange | 10,272 | 18,403 | 22,683 |
| — Shenzhen Stock Exchange | 81,353 | 15,010 | 50,478 |
| Deposits to Futures and Commodities Exchange | | | |
| — China Financial Futures Exchange | 14,388 | — | 13,345 |
| | <u>106,013</u> | <u>33,413</u> | <u>86,506</u> |

29 Other current assets

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Interest receivables ⁽¹⁾ | 4,082 | 110,980 | 159,212 |
| Accounts receivables ⁽²⁾ | 23,859 | 32,536 | 13,466 |
| Less: Impairment allowance | (952) | (683) | (1,199) |
| Prepaid listing expenses | — | — | 6,236 |
| Prepaid expenses | 4,689 | 12,024 | 4,140 |
| Prepayments for a property acquisition ⁽³⁾ | 75,000 | — | — |
| Other Receivables | 11,488 | 10,057 | 8,300 |
| | <u>118,166</u> | <u>164,914</u> | <u>190,155</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

29 Other current assets — continued

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Interest receivables ⁽¹⁾ | 4,013 | 62,054 | 61,761 |
| Accounts receivables ⁽²⁾ | 7,979 | 11,824 | 18,304 |
| Less: Impairment allowance | (451) | (633) | (1,447) |
| Prepaid listing expenses | — | — | 6,236 |
| Prepaid expenses | 4,689 | 12,024 | 4,140 |
| Prepayments for a property acquisition ⁽³⁾ | 75,000 | — | — |
| Other Receivables | 9,611 | 4,339 | 4,515 |
| | <u>100,841</u> | <u>89,608</u> | <u>93,509</u> |

(1) Interest receivables

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Interest receivables from bonds | 1,611 | 92,296 | 128,544 |
| Interest receivables from deposits | — | 1,543 | 2,245 |
| Interest receivables from margin financing, securities lending and financial assets held under resale agreements | 2,471 | 17,141 | 28,423 |
| | <u>4,082</u> | <u>110,980</u> | <u>159,212</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Interest receivables from bonds | 1,542 | 44,913 | 33,341 |
| Interest receivables from margin financing, securities lending and financial assets held under resale agreements | 2,471 | 17,141 | 28,420 |
| | <u>4,013</u> | <u>62,054</u> | <u>61,761</u> |

(2) Accounts receivables

The aging analysis of accounts receivables is as follows:

The Group

| | December 31, 2012 | | December 31, 2013 | | December 31, 2014 | |
|------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Amount | Impairment allowance | Amount | Impairment allowance | Amount | Impairment allowance |
| Up to 1 year | 23,859 | (952) | 32,418 | (677) | 9,319 | (992) |
| 1 to 3 years | — | — | 118 | (6) | 4,147 | (207) |
| Over 3 years | — | — | — | — | — | — |
| | <u>23,859</u> | <u>(952)</u> | <u>32,536</u> | <u>(683)</u> | <u>13,466</u> | <u>(1,199)</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

29 Other current assets — continued

(2) Accounts receivables — continued

The Company

| | December 31, 2012 | | December 31, 2013 | | December 31, 2014 | |
|--------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Amount | Impairment allowance | Amount | Impairment allowance | Amount | Impairment allowance |
| Up to 1 year | 7,979 | (451) | 11,706 | (627) | 15,157 | (1,289) |
| 1 to 3 years | — | — | 118 | (6) | 3,147 | (158) |
| Over 3 years | — | — | — | — | — | — |
| | <u>7,979</u> | <u>(451)</u> | <u>11,824</u> | <u>(633)</u> | <u>18,304</u> | <u>(1,447)</u> |

(3) Prepayment for a property acquisition

As at December 31, 2012, the Company reached an agreement with Guolian Xincheng Investment Co., Ltd for the purchase of an office building, and RMB75,000 thousand was paid as an deposit under the agreement. In October 2013, the deposit amount was refunded due to cancellation of the transaction (Note 51.3).

30 Margin accounts receivable

The Group and the Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|----------------------------------|----------------------|----------------------|----------------------|
| Margin accounts receivable | <u>189,653</u> | <u>1,146,952</u> | <u>3,738,358</u> |

Margin accounts are the funds the Group lends to the customers in margin financing and securities lending business. As at December 31, 2012, 2013 and 2014, no margin accounts receivable is overdue or impaired.

Margin accounts receivable as at December 31, 2012, 2013 and 2014 is secured by the customers' securities as collateral with undiscounted market value of approximately RMB726,604 thousand, RMB2,799,043 thousand and RMB9,125,082 thousand respectively.

31 Financial assets held under resale agreements

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------------|----------------------|----------------------|----------------------|
| Analysed by asset type: | | | |
| — Equity securities | — | 299,741 | 1,186,907 |
| — Debt securities | — | 160,879 | 274,002 |
| | — | <u>460,620</u> | <u>1,460,909</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

31 Financial assets held under resale agreements — continued

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------------------|----------------------|----------------------|----------------------|
| Analysed by market: | | | |
| — Interbank market | — | 57,976 | 40,000 |
| — Shanghai Stock Exchange | — | 330,376 | 268,524 |
| — Shenzhen Stock Exchange | — | 72,268 | 1,152,385 |
| | — | <u>460,620</u> | <u>1,460,909</u> |
| | = | = | = |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------------|----------------------|----------------------|----------------------|
| Analysed by asset type: | | | |
| — Equity securities | — | 299,741 | 961,907 |
| — Debt securities | — | — | — |
| | — | <u>299,741</u> | <u>961,907</u> |
| | = | = | = |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------------------|----------------------|----------------------|----------------------|
| Analysed by market: | | | |
| — Shanghai Stock Exchange | — | 227,473 | 34,522 |
| — Shenzhen Stock Exchange | — | 72,268 | 927,385 |
| | — | <u>299,741</u> | <u>961,907</u> |
| | = | = | = |

The Group received equity securities and debt securities as collateral in connection with the purchase of assets under resale agreements. Certain of these collateral can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of nil, RMB127,711 thousand and RMB39,384 thousand respectively as at December 31, 2012, 2013 and 2014. The Group has resold or re-pledged collateral accepted with a carrying amount of nil, RMB28,039 thousand and nil respectively as at December 31, 2012, 2013 and 2014. The Company has accepted collateral that can be resold or re-pledged with a carrying amount of nil, RMB69,735 thousand and RMB39,384 thousand respectively as at December 31, 2012, 2013 and 2014. The Company has not resold or re-pledged any collateral accepted as at December 31, 2012, 2013 and 2014.

II NOTES TO THE FINANCIAL INFORMATION — continued

32 Derivative financial instruments

The derivative financial instruments of the Group and the Company mainly represent stock index futures contracts. 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 December 31, 2012, 2013 and 2014 included in “clearing settlement funds.”

The Group and the Company

| | December 31, 2012 | | December 31, 2013 | | December 31, 2014 | |
|-------------------------------------|-------------------|------------|-------------------|------------|-------------------|------------|
| | Contractual value | Fair value | Contractual value | Fair value | Contractual value | Fair value |
| SIF | <u>102,765</u> | (6,124) | <u>—</u> | — | <u>121,316</u> | (2,149) |
| Less: Cash paid as settlement | | 6,124 | | — | | 2,149 |
| Net position of SIF contracts | | <u>—</u> | | <u>—</u> | | <u>—</u> |

33 Financial assets designated at fair value through profit or loss

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Financial assets held for trading | | | |
| Debt securities | 70,548 | 3,975,816 | 3,432,127 |
| Equity securities | 189,801 | 358,343 | 361,604 |
| Investment funds | 404,772 | 54,964 | 93,491 |
| | <u>665,121</u> | <u>4,389,123</u> | <u>3,887,222</u> |
| Financial assets designated at fair value through profit or loss | | | |
| Debt securities | 65,000 | 420,000 | 392,671 |
| | <u>730,121</u> | <u>4,809,123</u> | <u>4,279,893</u> |
| Analysed as: | | | |
| Financial assets held for trading | | | |
| Listed outside Hong Kong | 665,121 | 4,389,123 | 3,887,222 |
| Unlisted | — | — | — |
| | <u>665,121</u> | <u>4,389,123</u> | <u>3,887,222</u> |
| Analysed as: | | | |
| Financial assets designated at fair value through profit or loss | | | |
| Listed outside Hong Kong | 65,000 | 420,000 | 392,671 |
| Unlisted | — | — | — |
| | <u>65,000</u> | <u>420,000</u> | <u>392,671</u> |
| | <u>730,121</u> | <u>4,809,123</u> | <u>4,279,893</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

33 Financial assets designated at fair value through profit or loss — continued

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Financial assets held for trading | | | |
| Debt securities | 37,515 | 2,663,125 | 961,158 |
| Equity securities | 189,801 | 90,141 | 182,992 |
| Investment funds | 394,772 | 45,240 | 20,489 |
| | <u>622,088</u> | <u>2,798,506</u> | <u>1,164,639</u> |
| Financial assets designated at fair value through profit or loss | | | |
| Debt securities | 65,000 | 100,000 | 35,000 |
| | <u>687,088</u> | <u>2,898,506</u> | <u>1,199,639</u> |
| Analysed as: | | | |
| Financial assets held for trading | | | |
| Listed outside Hong Kong | 622,088 | 2,798,506 | 1,164,639 |
| Unlisted | — | — | — |
| | <u>622,088</u> | <u>2,798,506</u> | <u>1,164,639</u> |
| Analysed as: | | | |
| Financial assets designated at fair value through profit or loss | | | |
| Listed outside Hong Kong | 65,000 | 100,000 | 35,000 |
| Unlisted | — | — | — |
| | <u>65,000</u> | <u>100,000</u> | <u>35,000</u> |
| | <u>687,088</u> | <u>2,898,506</u> | <u>1,199,639</u> |

As at December 31, 2012, no securities of the Group and the Company has been placed as collateral. The fair value of securities of the Group and the Company which have been placed as collateral were RMB3,051,123 thousand and RMB2,259,810 thousand as at December 31, 2013 respectively, and RMB1,097,539 thousand and RMB439,694 thousand as at December 31, 2014 respectively.

34 Clearing settlement funds

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Clearing settlement funds held for clients | 925,622 | 1,011,827 | 2,253,684 |
| Proprietary clearing settlement funds | 235,260 | 265,064 | 521,865 |
| | <u>1,160,882</u> | <u>1,276,891</u> | <u>2,775,549</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Clearing settlement funds held for clients | 963,326 | 993,350 | 2,191,064 |
| Proprietary clearing settlement funds | 197,038 | 260,614 | 520,723 |
| | <u>1,160,364</u> | <u>1,253,964</u> | <u>2,711,787</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

35 Cash held for brokerage clients

The Group and the Company maintain separate banking accounts with banks and authorized 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 recognize 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.

36 Cash and bank balances

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------|----------------------|----------------------|----------------------|
| Cash | 2 | 97 | 11 |
| Bank balances | 1,908,224 | 578,633 | 950,406 |
| | <u>1,908,226</u> | <u>578,730</u> | <u>950,417</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------|----------------------|----------------------|----------------------|
| Cash | 2 | 97 | 11 |
| Bank balances | 1,058,585 | 35,478 | 410,472 |
| | <u>1,058,587</u> | <u>35,575</u> | <u>410,483</u> |

37 Disposal group classified as held for sale

The assets and liabilities related to Guolian Futures, a 86% owned subsidiary of the Company, had been presented as held for sale as at December 31, 2012. The Group made a decision to dispose Guolian Futures in 2012. The transaction was completed in August 2013.

(1) Assets of disposal group classified as held for sale

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Bank balances | 176,370 | — | — |
| Cash held for brokerage clients | 619,993 | — | — |
| Clearing settlement funds | 414,756 | — | — |
| Refundable deposits | 258,403 | — | — |
| Available-for-sale financial assets | 60,000 | — | — |
| Financial assets at fair value through profit or loss | 21,650 | — | — |
| Other financial assets | 41,721 | — | — |
| Other non-financial assets | 16,463 | — | — |
| | <u>1,609,356</u> | <u>—</u> | <u>—</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-----------------------------------|----------------------|----------------------|----------------------|
| Investments in subsidiaries | 201,313 | — | — |

II NOTES TO THE FINANCIAL INFORMATION — continued

37 Disposal group classified as held for sale — continued

(2) Liabilities of disposal group classified as held for sale

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Accounts payable to brokerage clients | 1,244,257 | — | — |
| Other liabilities | 43,982 | — | — |
| | <u>1,288,239</u> | <u>—</u> | <u>—</u> |

As at December 31, 2012, the assets and liabilities held for sale were stated at carrying amount. Costs to sell were estimated as not significant. The carrying amounts of these assets and liabilities were equivalent to or very close to their respective fair value. In addition, the net carrying amount of these assets and liabilities approximated the transaction price of disposal group.

(3) Analysis of the result of discontinued operations is as follows:

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Revenue | 213,181 | 118,612 | — |
| Expenses | (151,179) | (100,717) | — |
| Profit before tax of discontinued operations | 62,002 | 17,895 | — |
| Less: Tax | (16,510) | (4,881) | — |
| Profit after tax of discontinued operations | <u>45,492</u> | <u>13,014</u> | <u>—</u> |
| Pre-tax loss recognized on the re-measurement of assets of disposal group | — | — | — |
| Less: Tax | — | — | — |
| After tax loss recognized on the re-measurement of assets of disposal group | — | — | — |
| Profit for the year from discontinued operations | <u>45,492</u> | <u>13,014</u> | <u>—</u> |
| Profit for the year from discontinued operations attributable to: | | | |
| — Shareholders of the Company | 39,123 | 11,192 | — |
| — Non-controlling interests | 6,369 | 1,822 | — |
| Profit for the year from discontinued operations | <u>45,492</u> | <u>13,014</u> | <u>—</u> |

(4) Analysis of the result of discontinued cash flow is as follows:

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|----------------------------|----------------------|----------------------|----------------------|
| Operating cash flows | (76,844) | 35,864 | — |
| Investing cash flows | (48,657) | (56,158) | — |
| Financing cash flows | — | 104,479 | — |
| | <u>(125,501)</u> | <u>84,185</u> | <u>—</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

38 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

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Registered, issued and fully paid share capital | <u>1,500,000</u> | <u>1,500,000</u> | <u>1,500,000</u> |

39 Reserves

The Group

| | Surplus reserve ⁽¹⁾ | General reserve ⁽²⁾ | Transaction risk reserve ⁽²⁾ | Share of other comprehensive income of investments in associates | Available- for-sale financial assets revaluation reserve ⁽³⁾ | Total |
|---|-----------------------------------|-----------------------------------|---|--|--|------------------|
| As at January 1, 2012 | 149,814 | 305,693 | 267,549 | (7,011) | 3,084 | 719,129 |
| Changes in fair value recognized in other comprehensive income ... | — | — | — | 955 | 7,134 | 8,089 |
| Appropriation to surplus reserve .. | 6,772 | — | — | — | — | 6,772 |
| Appropriation to general reserve .. | — | 6,772 | — | — | — | 6,772 |
| Appropriation to transaction risk reserve | — | — | 6,772 | — | — | 6,772 |
| As at December 31, 2012 | <u>156,586</u> | <u>312,465</u> | <u>274,321</u> | <u>(6,056)</u> | <u>10,218</u> | <u>747,534</u> |
| Changes in fair value recognized in other comprehensive income ... | — | — | — | 1,883 | 10,182 | 12,065 |
| Appropriation to surplus reserve .. | 34,158 | — | — | — | — | 34,158 |
| Appropriation to general reserve .. | — | 34,158 | — | — | — | 34,158 |
| Appropriation to transaction risk reserve | — | — | 34,158 | — | — | 34,158 |
| As at December 31, 2013 | <u>190,744</u> | <u>346,623</u> | <u>308,479</u> | <u>(4,173)</u> | <u>20,400</u> | <u>862,073</u> |
| Changes in fair value recognized in other comprehensive income ... | — | — | — | 6,272 | 211,478 | 217,750 |
| Appropriation to surplus reserve .. | 61,528 | — | — | — | — | 61,528 |
| Appropriation to general reserve .. | — | 61,528 | — | — | — | 61,528 |
| Appropriation to transaction risk reserve | — | — | 61,528 | — | — | 61,528 |
| As at December 31, 2014 | <u>252,272</u> | <u>408,151</u> | <u>370,007</u> | <u>2,099</u> | <u>231,878</u> | <u>1,264,407</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

39 Reserves — continued

The Company

| | Surplus reserve ⁽¹⁾ | General reserve ⁽²⁾ | Transaction risk reserve ⁽²⁾ | Share of other comprehensive income of investments in associates | Available- for-sale financial assets revaluation reserve ⁽³⁾ | Total |
|--|-----------------------------------|-----------------------------------|---|--|--|------------------|
| As at January 1, 2012 | 149,814 | 305,693 | 267,549 | (7,011) | 3,084 | 719,129 |
| Changes in fair value recognized in other comprehensive income . . | — | — | — | 955 | 6,546 | 7,501 |
| Appropriation to surplus reserve | 6,772 | — | — | — | — | 6,772 |
| Appropriation to general reserve | — | 6,772 | — | — | — | 6,772 |
| Appropriation to transaction risk Reserve | — | — | 6,772 | — | — | 6,772 |
| As at December 31, 2012 . . . | <u>156,586</u> | <u>312,465</u> | <u>274,321</u> | <u>(6,056)</u> | <u>9,630</u> | <u>746,946</u> |
| Changes in fair value recognized in other comprehensive income . . | — | — | — | 1,883 | 10,544 | 12,427 |
| Appropriation to surplus reserve | 34,158 | — | — | — | — | 34,158 |
| Appropriation to general reserve | — | 34,158 | — | — | — | 34,158 |
| Appropriation to transaction risk reserve | — | — | 34,158 | — | — | 34,158 |
| As at December 31, 2013 . . . | <u>190,744</u> | <u>346,623</u> | <u>308,479</u> | <u>(4,173)</u> | <u>20,174</u> | <u>861,847</u> |
| Changes in fair value recognized in other comprehensive income . . | — | — | — | 6,272 | 211,693 | 217,965 |
| Appropriation to surplus reserve | 61,528 | — | — | — | — | 61,528 |
| Appropriation to general reserve | — | 61,528 | — | — | — | 61,528 |
| Appropriation to transaction risk reserve | — | — | 61,528 | — | — | 61,528 |
| As at December 31, 2014 . . . | <u>252,272</u> | <u>408,151</u> | <u>370,007</u> | <u>2,099</u> | <u>231,867</u> | <u>1,264,396</u> |

(1) Surplus reserve

Pursuant to the Company Law of the PRC, the Company's Articles of Association and resolutions of the Board, 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 capitalization is not less than 25% of the registered capital immediately before capitalization.

II NOTES TO THE FINANCIAL INFORMATION — continued

39 Reserves — continued

(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 December 18, 2007, the Company appropriates 10% of its 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 December 18, 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company appropriates 10% from its profit to the transaction risk.

(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

| | Year ended December 31, 2012 | | |
|---|------------------------------|--------------------------------|----------------------|
| | Pre-tax amount | Income tax effect (Note 27) | After-tax net amount |
| Balance at beginning of year | 4,112 | (1,028) | 3,084 |
| Changes in fair value for available-for-sale financial assets | 9,784 | (2,446) | 7,338 |
| Amounts reclassified to (losses)/gains upon-disposal of available-for-sale financial assets | (272) | 68 | (204) |
| Balance at end of year | <u>13,624</u> | <u>(3,406)</u> | <u>10,218</u> |

The Company

| | Year ended December 31, 2012 | | |
|--|------------------------------|--------------------------------|----------------------|
| | Pre-tax amount | Income tax effect (Note 27) | After-tax net amount |
| Balance at beginning of year | 4,112 | (1,028) | 3,084 |
| Changes in fair value for available-for-sale financial assets | 9,000 | (2,250) | 6,750 |
| Amounts reclassified to (losses)/ gains upon-disposal of available-for-sale financial assets | (272) | 68 | (204) |
| Balance at end of year | <u>12,840</u> | <u>(3,210)</u> | <u>9,630</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

39 Reserves — continued

(3) Available-for-sale financial assets revaluation reserve — continued

The Group

| | Year ended December 31, 2013 | | |
|---|------------------------------|--------------------------------|----------------------|
| | Pre-tax amount | Income tax effect (Note 27) | After-tax net amount |
| Balance at beginning of year | 13,624 | (3,406) | 10,218 |
| Changes in fair value for available-for-sale financial assets | 23,664 | (5,916) | 17,748 |
| Amounts reclassified to (losses)/gains upon-disposal of available-for-sale financial assets | (10,088) | 2,522 | (7,566) |
| Balance at end of year | <u>27,200</u> | <u>(6,800)</u> | <u>20,400</u> |

The Company

| | Year ended December 31, 2013 | | |
|---|------------------------------|--------------------------------|----------------------|
| | Pre-tax amount | Income tax effect (Note 27) | After-tax net amount |
| Balance at beginning of year | 12,840 | (3,210) | 9,630 |
| Changes in fair value for available-for-sale financial assets | 15,440 | (3,860) | 11,580 |
| Amounts reclassified to gains/(losses) upon-disposal of available-for-sale financial assets | (1,381) | 345 | (1,036) |
| Balance at end of year | <u>26,899</u> | <u>(6,725)</u> | <u>20,174</u> |

The Group

| | Year ended December 31, 2014 | | |
|---|------------------------------|--------------------------------|----------------------|
| | Pre-tax amount | Income tax effect (Note 27) | After-tax net amount |
| Balance at beginning of year | 27,200 | (6,800) | 20,400 |
| Changes in fair value for available-for-sale financial assets | 389,211 | (97,303) | 291,908 |
| Amounts reclassified to (losses)/gains upon-disposal of available-for-sale financial assets | (107,240) | 26,810 | (80,430) |
| Balance at end of year | <u>309,171</u> | <u>(77,293)</u> | <u>231,878</u> |

The Company

| | Year ended December 31, 2014 | | |
|---|------------------------------|--------------------------------|----------------------|
| | Pre-tax amount | Income tax effect (Note 27) | After-tax net amount |
| Balance at beginning of year | 26,899 | (6,725) | 20,174 |
| Changes in fair value for available-for-sale financial assets | 306,594 | (76,649) | 229,945 |
| Amounts reclassified to (losses)/gains upon-disposal of available-for-sale financial assets | (24,337) | 6,085 | (18,252) |
| Balance at end of year | <u>309,156</u> | <u>(77,289)</u> | <u>231,867</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

40 Bonds in issue

The Group and the Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Subordinated bonds with fixed rate-2015 ^(a) | — | — | 300,000 |
| Subordinated bonds with fixed rate-2016 ^(b) | 650,000 | 650,000 | 650,000 |
| Subordinated bonds with fixed rate-2017 ^(c) | — | — | 1,500,000 |
| | <u>650,000</u> | <u>650,000</u> | <u>2,450,000</u> |

(a) On August 6, 2014, the Company issued RMB300,000 thousand of subordinated bonds to Xinyuan Jinmeihua No.12 Asset Management Scheme with six-month term and a fixed coupon rate of 6.30% paid at maturity date.

(b) On February 14, 2011, the Company issued subordinated bonds to Wuxi Guolian Development (Group) Co., Ltd. with quota of RMB800,000 thousand by face value, paying annual interest at 6.22% with five years term.

(c) On October 29, 2014, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of 3 years and a fixed coupon rate of 6.20% paid annually.

41 Other non-current liabilities

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|------------------|----------------------|----------------------|----------------------|
| Provisions | — | 24,856 | 347 |
| | <u>—</u> | <u>24,856</u> | <u>347</u> |

For the higher risk units held by the Company in the classified collective asset management schemes, the Company provides credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. The Company has set aside a provision for potential losses. This provision has been included in financial liabilities at fair value through profit or loss in the consolidated statements of financial position.

42 Other current liabilities

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Interest payable | — | 1,127 | 40,868 |
| Accounts payable | 108,185 | 118,348 | 175,840 |
| Securities investor protection fund | 3,877 | 3,811 | 5,249 |
| Salaries, bonus, allowances and benefits payables (Note 43) .. | 52,405 | 38,831 | 110,214 |
| Taxes payable | 6,923 | 6,886 | 22,881 |
| Others | 12,245 | 10,445 | 25,534 |
| | <u>183,635</u> | <u>179,448</u> | <u>380,586</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|--|----------------------|----------------------|----------------------|
| Interest payable | — | 935 | 40,802 |
| Accounts payable | 101,057 | 62,461 | 82,720 |
| Securities investor protection fund | 3,137 | 3,363 | 4,627 |
| Salaries, bonus, allowances and benefits payables (Note 43) .. | 34,196 | 24,172 | 70,039 |
| Taxes payable | 3,464 | 5,344 | 20,112 |
| Others | 10,431 | 6,091 | 5,829 |
| | <u>152,285</u> | <u>102,366</u> | <u>224,129</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

43 Payroll and welfare

The Group

| | January 1, 2012 | Current year charge | Current year payment | December 31, 2012 |
|---|--------------------|------------------------|-------------------------|----------------------|
| Salaries and bonus | 56,641 | 214,840 | (219,238) | 52,243 |
| Pension | (4) | 33,184 | (33,078) | 102 |
| Other social security | 40 | 13,563 | (13,556) | 47 |
| Other welfare | — | 5,963 | (5,963) | — |
| Labor union funds and employee education funds | 6 | 5,789 | (5,782) | 13 |
| | <u>56,683</u> | <u>273,339</u> | <u>(277,617)</u> | <u>52,405</u> |

The Group

| | January 1, 2013 | Current year charge | Current year payment | December 31, 2013 |
|---|--------------------|------------------------|-------------------------|----------------------|
| Salaries and bonus | 52,243 | 180,319 | (194,331) | 38,231 |
| Pension | 102 | 39,064 | (38,752) | 414 |
| Other social security | 47 | 13,706 | (13,569) | 184 |
| Other welfare | — | 10,190 | (10,190) | — |
| Labor union funds and employee education funds | 13 | 6,684 | (6,695) | 2 |
| | <u>52,405</u> | <u>249,963</u> | <u>(263,537)</u> | <u>38,831</u> |

The Group

| | January 1, 2014 | Current year charge | Current year payment | December 31, 2014 |
|---|--------------------|------------------------|-------------------------|----------------------|
| Salaries and bonus | 38,231 | 300,565 | (228,637) | 110,159 |
| Pension | 414 | 41,308 | (41,717) | 5 |
| Other social security | 184 | 16,363 | (16,500) | 47 |
| Other welfare | — | 10,625 | (10,625) | — |
| Labor union funds and employee education funds | 2 | 6,275 | (6,274) | 3 |
| | <u>38,831</u> | <u>375,136</u> | <u>(303,753)</u> | <u>110,214</u> |

The Company

| | January 1, 2012 | Current year charge | Current year payment | December 31, 2012 |
|---|--------------------|------------------------|-------------------------|----------------------|
| Salaries and bonus | 38,188 | 112,046 | (116,098) | 34,136 |
| Pension | (4) | 27,345 | (27,341) | — |
| Other social security | 40 | 10,891 | (10,884) | 47 |
| Other welfare | — | 4,859 | (4,859) | — |
| Labor union funds and employee education funds | 6 | 4,978 | (4,971) | 13 |
| | <u>38,230</u> | <u>160,119</u> | <u>(164,153)</u> | <u>34,196</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

43 Payroll and welfare — continued

The Company

| | January 1, 2013 | Current year charge | Current year payment | December 31, 2013 |
|---|--------------------|------------------------|-------------------------|----------------------|
| Salaries and bonus | 34,136 | 110,649 | (120,662) | 24,123 |
| Pension | — | 32,984 | (32,984) | — |
| Other social security | 47 | 11,156 | (11,156) | 47 |
| Other welfare | — | 9,228 | (9,228) | — |
| Labor union funds and employee education funds | 13 | 5,175 | (5,186) | 2 |
| | <u>34,196</u> | <u>169,192</u> | <u>(179,216)</u> | <u>24,172</u> |

The Company

| | January 1, 2014 | Current year charge | Current year payment | December 31, 2014 |
|---|--------------------|------------------------|-------------------------|----------------------|
| Salaries and bonus | 24,123 | 202,089 | (156,228) | 69,984 |
| Pension | — | 35,580 | (35,580) | — |
| Other social security | 47 | 13,169 | (13,164) | 52 |
| Other welfare | — | 9,712 | (9,712) | — |
| Labor union funds and employee education funds | 2 | 4,663 | (4,662) | 3 |
| | <u>24,172</u> | <u>265,213</u> | <u>(219,346)</u> | <u>70,039</u> |

44 Due to other financial institutions

The Group and the Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Due to other financial institutions | — | 200,000 | 550,000 |
| | <u>—</u> | <u>200,000</u> | <u>550,000</u> |

As at December 31, 2013, 7-days placements were obtained from Bank of Nanjing with interest at 5.83% per annum. As at December 31, 2014, placements were obtained from China Securities Finance Corporation Limited with interest rate 5.80% per annum and are repayable after 182 days.

45 Financial assets sold under repurchase agreements

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|------------------------------------|----------------------|----------------------|----------------------|
| Analysed by asset type: | | | |
| — Debt securities | — | 2,585,674 | 1,321,098 |
| — Margin accounts receivable | — | — | 930,000 |
| | <u>—</u> | <u>2,585,674</u> | <u>2,251,098</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

45 Financial assets sold under repurchase agreements — continued

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------------------|----------------------|----------------------|----------------------|
| Analysed by market: | | | |
| — Interbank market | — | 333,779 | 479,500 |
| — Shanghai Stock Exchange | — | 2,224,895 | 841,598 |
| — Shenzhen Stock Exchange | — | 27,000 | — |
| — Others | — | — | 930,000 |
| | <u>—</u> | <u>2,585,674</u> | <u>2,251,098</u> |

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-------------------------------|----------------------|----------------------|----------------------|
| Analysed by transaction type: | | | |
| — Pledged | — | 2,565,775 | 2,251,098 |
| — Sold | — | 19,899 | — |
| | <u>—</u> | <u>2,585,674</u> | <u>2,251,098</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|------------------------------------|----------------------|----------------------|----------------------|
| Analysed by asset type: | | | |
| — Debt securities | — | 2,087,399 | 652,500 |
| — Margin accounts receivable | — | — | 930,000 |
| | <u>—</u> | <u>2,087,399</u> | <u>1,582,500</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---------------------------------|----------------------|----------------------|----------------------|
| Analysed by market: | | | |
| — Interbank market | — | 255,399 | 409,500 |
| — Shanghai Stock Exchange | — | 1,805,000 | 243,000 |
| — Shenzhen Stock Exchange | — | 27,000 | — |
| — Others | — | — | 930,000 |
| | <u>—</u> | <u>2,087,399</u> | <u>1,582,500</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-------------------------------|----------------------|----------------------|----------------------|
| Analysed by transaction type: | | | |
| — Pledged | — | 2,067,500 | 1,582,500 |
| — Sold | — | 19,899 | — |
| | <u>—</u> | <u>2,087,399</u> | <u>1,582,500</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

45 Financial assets sold under repurchase agreements — continued

As at December 31, 2012, 2013 and 2014, the value of the Financial assets at fair value through profit or loss, 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

| | <u>December 31, 2012</u> | <u>December 31, 2013</u> | <u>December 31, 2014</u> |
|---|------------------------------|------------------------------|------------------------------|
| Pledged | | | |
| Financial assets at fair value through profit or loss | — | 3,051,123 | 1,097,539 |
| Financial assets available-for-sale | — | — | 255,613 |
| Financial assets held under resale agreements | — | 28,039 | — |
| Margin accounts receivable | — | — | 1,176,794 |
| | <u>—</u> | <u>3,079,162</u> | <u>2,529,946</u> |
| Sold | | | |
| Financial assets at fair value through profit or loss | — | 19,834 | — |
| | <u>—</u> | <u>3,098,996</u> | <u>2,529,946</u> |

The Company

| | <u>December 31, 2012</u> | <u>December 31, 2013</u> | <u>December 31, 2014</u> |
|---|------------------------------|------------------------------|------------------------------|
| Pledged | | | |
| Financial assets at fair value through profit or loss | — | 2,259,810 | 439,694 |
| Financial assets available-for-sale | — | — | 255,613 |
| Financial assets held under resale agreements | — | — | — |
| Margin accounts receivable | — | — | 1,176,794 |
| | <u>—</u> | <u>2,259,810</u> | <u>1,872,101</u> |
| Sold | | | |
| Financial assets at fair value through profit or loss | — | 19,834 | — |
| | <u>—</u> | <u>2,279,644</u> | <u>1,872,101</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

46 Financial liabilities at fair value through profit or loss

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|----------------------------------|----------------------|----------------------|----------------------|
| Yulinglong No. 1 | 27,345 | — | — |
| Huifu No. 1 | — | 323,371 | 998,888 |
| Xianjin Tianli No.1 | — | 201,450 | 461,936 |
| Jinrui No.5 | — | 170,358 | 159,086 |
| Jinrui No.6 | — | 125,898 | 145,082 |
| Huijin No. 10 | — | 87,464 | — |
| Huijin No. 15 | — | 51,190 | 51,021 |
| Huijin No. 20 | — | — | 3,305 |
| Huijin No. 27 | — | — | 28,354 |
| Yulinglong Xiaofeijingxuan | — | 51,526 | 1,111 |
| Yulinglong Shijianqudong | — | 25,762 | 2,582 |
| Dingzengbao No. 1 | — | — | 55,378 |
| Dingzengjingxuan No. 1 | — | 78,269 | 88,068 |
| Dingzengjingxuan No. 5 | — | — | 105 |
| Dingzengjingxuan No. 6 | — | — | 104 |
| Yuruyi No. 1 | — | 135,740 | 74,273 |
| Yuruyi No. 2 | — | 124,705 | 194,479 |
| Yuruyi No. 3 | — | — | 66,530 |
| Yuruyi No. 5 | — | — | 138,100 |
| Zhiyabao No. 1 | — | — | 27,067 |
| | <u>27,345</u> | <u>1,375,733</u> | <u>2,495,469</u> |

47 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 December 31, 2012, 2013 and 2014, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB19,502 thousand, RMB67,038 thousand and RMB489,285 thousand respectively, and are included in the Group's accounts payable to brokerage clients.

II NOTES TO THE FINANCIAL INFORMATION — continued

48 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Cash | 2 | 97 | 11 |
| Bank balances | 1,908,224 | 578,633 | 950,406 |
| Proprietary clearing settlement funds | 235,260 | 265,064 | 521,865 |
| | <u>2,143,486</u> | <u>843,794</u> | <u>1,472,282</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Cash | 2 | 97 | 11 |
| Bank balances | 1,058,585 | 35,478 | 410,472 |
| Proprietary clearing settlement funds | 197,038 | 260,614 | 520,723 |
| | <u>1,255,625</u> | <u>296,189</u> | <u>931,206</u> |

49 Transferred financial assets

In the normal course of business, the Group enters into certain transactions in which it transfers recognized financial assets to third parties or customers. If these transfers qualify for derecognition, the Group derecognizes 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 recognize 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 pledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities upon maturity of the contract. In certain circumstances, if the securities increase or decrease in value, the Group may be required to pay additional collateral to the counterparties. In these cases, the Group believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. In addition, it recognizes a financial liability for the cash received.

(2) Securities lending

Transferred financial assets that do not qualify for derecognition include securities lent to clients for them to sell, for which the clients are required to provide collateral that could fully cover the credit exposure of the securities lent, and have the obligation to return the securities to the Group in accordance with the contracts. In certain circumstances, if the securities increase or decrease in value, the Group may require additional collateral from the clients or have to return part of the collateral it holds to the clients. In these instances, the Group believe that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

II NOTES TO THE FINANCIAL INFORMATION — continued**49 Transferred financial assets — continued****(2) Securities lending — continued**

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

| | December 31, 2012 | | December 31, 2013 | | December 31, 2014 | |
|---------------------------------|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|
| | 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 | — | — | 19,834 | 19,899 | — | — |
| Securities lending | <u>1,320</u> | <u>—</u> | <u>3,449</u> | <u>—</u> | <u>61,866</u> | <u>—</u> |

50 Commitments and contingent liabilities**(1) Capital commitments**

As at December 31, 2012, 2013 and 2014, the Group and the Company were not involved in any material capital commitments.

(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

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-------------------------|-------------------|-------------------|-------------------|
| Within 1 year | 35,345 | 31,610 | 30,511 |
| 1 to 3 years | 61,431 | 47,291 | 31,777 |
| Over 3 years | <u>43,492</u> | <u>25,060</u> | <u>15,960</u> |
| | <u>140,268</u> | <u>103,961</u> | <u>78,248</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|-------------------------|-------------------|-------------------|-------------------|
| Within 1 year | 21,910 | 23,265 | 24,412 |
| 1 to 3 years | 42,235 | 38,329 | 28,914 |
| Over 3 years | <u>39,144</u> | <u>25,060</u> | <u>15,960</u> |
| | <u>103,289</u> | <u>86,654</u> | <u>69,286</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued**50 Commitments and contingent liabilities — continued**

(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 December 31, 2012, 2013 and 2014, 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.

51 Related party transactions

51.1 Transactions and balances with the Company's controlling shareholder- Guolian Group

Guolian Group is a wholly state-owned company established in the PRC with a registered capital of RMB8,000,000 thousand. As at December 31, 2014 Guolian Group directly held 37.36% of the equity interest in the Company. In addition, Guolian Group also indirectly held equity interest in our Company through its subsidiaries of Guolian Trust Co., Ltd. ("Guolian Trust"), Wuxi Municipal Electric Power Company ("Wuxi Electric"), Wuxi Guolian Textile Group Co., Ltd. ("Guolian Textile") and Wuxi Guolian Environmental Energy Group Co., Ltd. ("Guolian Environmental").

Guolian Trust is the subsidiary of Guolian Group who directly held 83.74% of the equity interest. As at December 31, 2014, Guolian Trust held 26.80% of the equity interest in the Company.

Wuxi Electric is a indirectly wholly-owned subsidiary of Guolian Group. As at December 31, 2014, Wuxi Electric held 18.34% of the equity interest in the Company.

Guolian Textile is a direct wholly-owned subsidiary of Guolian Group. As at December 31, 2014, Guolian Textile held 5% of the equity interest in the Company.

Guolian Environmental is a direct wholly-owned subsidiary of Guolian Group. As at December 31, 2014, Guolian Environmental held 2% of the equity interest in the Company.

Transactions during the year

| | Year ended December 31, | | |
|---|-------------------------|---------|--------|
| | 2012 | 2013 | 2014 |
| Proceeds from disposal of Guolian Futures Co., Ltd. | — | 224,021 | — |
| Income from providing securities brokerage services | 1,681 | 1,213 | 155 |
| Income from providing asset management services | 715 | 476 | 2,359 |
| Interest expense of bonds in issue | 41,104 | 40,992 | 40,992 |

Balances at the end of the year

| | Year ended December 31, | | |
|------------------------------------|-------------------------|---------|---------|
| | 2012 | 2013 | 2014 |
| Bonds in issue (Note 40) | 650,000 | 650,000 | 650,000 |

In addition to the above related party transactions, the Company provided asset management services to Guolian Group. As at December 31, 2012, 2013 and 2014, the assets under management for Guolian Group amounted to approximately RMB202,418 thousand, RMB223,442 thousand and

II NOTES TO THE FINANCIAL INFORMATION — continued

51 Related party transactions — continued

51.1 Transactions and balances with the Company's controlling shareholder- Guolian Group — continued

RMB155,348 thousand respectively. For the years ended December 31, 2012, 2013 and 2014, the asset management fee income was RMB715 thousand, RMB476 thousand and RMB2,359 thousand respectively.

51.2 Other related party transactions and balances

The below table lists the Group's significant other related legal entities and the holdings of the Group's major shareholders as at December 31, 2014:

| <u>Significant related legal entities</u> | <u>The relationship with the Group</u> |
|---|--|
| Guolian Trust | Controlled by the controlling shareholder of the Company |
| Guolian Futures | Controlled by the controlling shareholder of the Company |
| Wuxi Guolian Xincheng Investment Co., Ltd. ("Guolian Xincheng") | Controlled by the controlling shareholder of the Company |
| Guolian Finance Co., Ltd. ("Guolian Finance") | Controlled by the controlling shareholder of the Company |
| Wuxi Guolian Property Management Co., Ltd. ("Guolian Property Management") | Controlled by the controlling shareholder of the Company |
| Zhonghai Fund Management Co., Ltd. | Associate invested by the Group |
| Wuxi Taihu Yangshan Peach Technology Co., Ltd. | Associate invested by the Group |

Transactions during the year

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| Income from providing securities brokerage services | | | |
| — Zhonghai Fund Management Co., Ltd. | 5,155 | 4,479 | 3,026 |
| — Guolian Futures | — | 938 | 1,225 |
| — Guolian Trust | 577 | 1,811 | 5,060 |
| — Others | 273 | 462 | 989 |
| Income from providing fund distribution service | | | |
| — Zhonghai Fund Management Co., Ltd. | 377 | 336 | 705 |
| Income from providing asset management services | | | |
| — Guolian Trust | 2,079 | 1,616 | — |
| — Others | 23 | 1,104 | 1,742 |
| Rental income | | | |
| — Guolian Futures | — | 398 | 541 |
| Rental expense | | | |
| — Guolian Xincheng | — | 8,492 | 8,492 |
| — Others | 633 | 522 | 633 |
| Income from providing financial advisory services | | | |
| — Guolian Futures | — | 300 | — |
| — Guolian Trust | 1,676 | 3,304 | — |
| — Others | — | 500 | — |
| Expense from receiving services | | | |
| — Guolian Futures | — | 38 | 32 |
| — Guolian Property Management | 3,820 | 3,815 | 3,882 |
| Interest expense of borrowings | | | |
| — Guolian Finance | — | 1,812 | 1,957 |

II NOTES TO THE FINANCIAL INFORMATION — continued

51 Related party transactions — continued

51.2 Other related party transactions and balances — continued

Balances at the end of the year

| | Year ended December 31, | | |
|---|-------------------------|-------|--------|
| | 2012 | 2013 | 2014 |
| Prepayment | | | |
| — Guolian Xincheng (Note 29) | 75,000 | — | — |
| Accounts payable | | | |
| — Guolian Futures | — | 50 | 80 |
| Clearing settlement funds | | | |
| — Guolian Futures | — | 1,268 | 1,850 |
| Refundable deposits | | | |
| — Guolian Futures | — | — | 13,345 |
| Accounts receivables | | | |
| — Wuxi Taihu Yangshan Peach Technology Co., Ltd. | 10,000 | — | — |

In addition to the above related party transactions, the Company provided asset management services to other related parties. As at December 31, 2012, 2013 and 2014, the assets under investment management for other related parties amounted to approximately RMB402,086 thousand, RMB1,127,260 thousand and RMB1,037,425 thousand respectively. For the years ended December 31, 2012, 2013 and 2014, the asset management fee income was RMB2,102 thousand, RMB2,720 thousand and RMB1,742 thousand respectively.

51.3 Subsidiaries and consolidated structured entities

Transactions during the year

| | Year ended December 31, | | |
|---|-------------------------|-------|---------|
| | 2012 | 2013 | 2014 |
| Provision of net capital guarantee to Hua Ying Securities Co., Ltd | — | — | 300,000 |
| Fee from providing net capital guarantee to Hua Ying Securities Co., Ltd | — | — | 2,625 |
| Income from providing services | 2,271 | 9,130 | 19,889 |
| Expense from receiving services | 111 | 79 | 1,500 |
| Rental income | 150 | 238 | — |

Balances at the end of the year

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|-------------------|-------------------|-------------------|
| Accounts receivables | — | 2,432 | 6,961 |
| Refundable deposits | 14,387 | — | — |
| Clearing settlement funds | 22,412 | — | — |
| Accounts payable to brokerage clients | 36,799 | — | — |

Significant balances and transactions between subsidiaries and consolidated structured entities set out above have been eliminated in the consolidated financial statements.

In addition to the above related party transactions, the Company provided asset management services to subsidiaries. As at December 31, 2012, 2013 and 2014, the assets under investment

II NOTES TO THE FINANCIAL INFORMATION — continued**51 Related party transactions — continued**

51.3 Subsidiaries and consolidated structured entities — continued

Balances at the end of the year — continued

management for subsidiaries amounted to approximately RMB104,224 thousand, RMB15,046 thousand and RMB93,111 thousand respectively. For the years ended December 31, 2012, 2013 and 2014, the asset management fee income was RMB189 thousand, RMB207 thousand and RMB294 thousand respectively.

51.4 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.

| | <u>Year ended December 31,</u> | | |
|------------------------------------|--------------------------------|--------------|--------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| Short term employee benefits | 2,751 | 3,842 | 6,015 |
| Post-employment benefits | 816 | 726 | 895 |
| | <u>3,567</u> | <u>4,568</u> | <u>6,910</u> |

52 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) Credit transaction: providing financial leverage for brokerage clients, securities-backed lending and securities repurchase businesses.
- (c) Investment banking: corporate finance and financial advisory services to institutional clients;
- (d) Proprietary trading: trading in financial products;
- (e) Asset management and investment: direct investments and funds related businesses, in addition to portfolio management and maintenance, investment advisory and transaction execution services.
- (f) 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 Jiangsu Province, the PRC.

II NOTES TO THE FINANCIAL INFORMATION — continued

52 Segment analysis — continued

Year ended December 31, 2012

| | Asset management and investment | | | | Total (continued) | | Total (continued and discontinued) |
|--|---------------------------------|--------------------|--------------------|---------------------|-------------------|-------------|------------------------------------|
| | Securities brokerage | Credit transaction | Investment banking | Proprietary trading | Other | Elimination | |
| Total revenue and other income | | | | | | | |
| Commission and fee income | | | | | | | |
| — external | 412,629 | — | 86,578 | — | — | — | 514,767 |
| — internal | 1,886 | — | — | — | — | (1,886) | — |
| Interest income | | | | | | | |
| — external | 85,500 | 4,169 | 26,254 | — | 31,148 | — | 150,828 |
| — internal | — | — | — | — | — | — | — |
| Net investment gains | | | | | | | |
| — external | — | — | 46,412 | 49,042 | 462 | — | 98,537 |
| — internal | — | — | — | — | (112) | 112 | — |
| Other gains | | | | | | | |
| — external | 1,207 | — | 6,167 | — | 933 | — | 8,307 |
| — internal | — | — | — | — | 150 | (150) | — |
| Total expenses | (338,432) | (1,794) | (189,586) | (6,686) | (173,456) | 1,924 | (717,938) |
| Share of profit of investments in associates | — | — | — | — | 9,672 | — | 11,457 |
| Profit before income tax | 162,790 | 2,375 | (24,175) | 42,356 | (131,203) | — | 65,958 |
| Total assets | 4,002,586 | 262,073 | 782,001 | 952,474 | 2,386,066 | (935,418) | 7,686,587 |
| Total liabilities | 3,918,294 | — | 30,713 | — | 777,357 | — | 4,755,260 |
| Supplemental information | | | | | | | |
| Depreciation and amortization | 34,069 | 9 | 5,992 | 17 | 11,258 | — | 51,424 |
| Impairment provision | — | — | — | (221) | (280) | — | (1,001) |
| Capital expenditure | 4,978 | 88 | 9,590 | 13 | 8,786 | — | 23,482 |
| | | | | | | | 15,561 |
| | | | | | | | 683,150 |
| | | | | | | | 191,037 |
| | | | | | | | 101,621 |
| | | | | | | | 9,812 |
| | | | | | | | (869,117) |
| | | | | | | | 11,457 |
| | | | | | | | 127,960 |
| | | | | | | | 9,295,943 |
| | | | | | | | 6,043,499 |
| | | | | | | | 56,307 |
| | | | | | | | (2,804) |
| | | | | | | | 39,043 |

II NOTES TO THE FINANCIAL INFORMATION — continued

52 Segment analysis — continued

Year ended December 31, 2013

| | Asset management and investment | | | | | | Total | | Total (continued and discontinued) |
|--|---------------------------------|--------------------|--------------------|---------------------|-----------|-------------|-------------|--------------|------------------------------------|
| | Securities brokerage | Credit transaction | Investment banking | Proprietary trading | Other | Elimination | (continued) | Discontinued | |
| Total revenue and other income | | | | | | | | | |
| Commission and fee income | | | | | | | | | |
| — external | 594,228 | — | 96,437 | — | 22,857 | — | 713,522 | 97,300 | 810,822 |
| — internal | — | — | — | — | — | — | — | — | — |
| Interest income | | | | | | | | | |
| — external | 81,014 | 67,489 | 26,292 | 570 | 19,187 | 10,498 | 205,050 | 18,093 | 223,143 |
| — internal | — | — | — | — | — | — | — | — | — |
| Net investment gains/(losses) | | | | | | | | | |
| — external | — | — | 19,449 | 159,897 | (29,058) | 4,908 | 155,196 | 2,972 | 158,168 |
| — internal | — | — | — | — | — | — | — | — | — |
| Other gains | | | | | | | | | |
| — external | 2,779 | — | 1,885 | — | 4 | 982 | 5,650 | 247 | 5,897 |
| — internal | — | — | — | — | — | — | — | — | — |
| Total expenses | (356,747) | (10,029) | (140,219) | (50,191) | (21,643) | (161,045) | (739,874) | (100,717) | (840,591) |
| Share of profit of investments in associates | — | — | — | — | 302 | 10,864 | 11,166 | — | 11,166 |
| Profit before income tax | 321,274 | 57,460 | 3,844 | 110,276 | (8,351) | (133,793) | 350,710 | 17,895 | 368,605 |
| Total assets | 3,536,522 | 1,600,426 | 944,097 | 3,564,295 | 1,940,549 | 1,080,447 | 11,932,291 | — | 11,932,291 |
| Total liabilities | 3,476,398 | — | 189,255 | 2,088,334 | 1,759,130 | 958,655 | 8,471,772 | — | 8,471,772 |
| Supplemental information | | | | | | | | | |
| Depreciation and amortization | 31,915 | 1,807 | 6,268 | 18 | 151 | 10,287 | 50,446 | 5,635 | 56,081 |
| Impairment reversal/(provision) | — | — | — | 1,532 | 450 | (181) | 1,801 | (208) | 1,593 |
| Capital expenditure | 5,605 | 5 | 95 | 20 | 80 | 16,180 | 21,985 | 3,569 | 25,554 |

II NOTES TO THE FINANCIAL INFORMATION — continued

52 Segment analysis — continued

Year ended December 31, 2014

| | Asset management and investment | | | | | | Total (continued and discontinued) |
|--|---------------------------------|--------------------|--------------------|---------------------|-----------|-------------|------------------------------------|
| | Securities brokerage | Credit transaction | Investment banking | Proprietary trading | Other | Elimination | |
| Total revenue and other income | | | | | | | |
| Commission and fee income | | | | | | | |
| — external | 750,894 | — | 292,389 | — | 36,545 | — | 1,079,828 |
| — internal | — | — | 1,500 | — | — | (1,500) | — |
| Interest income | | | | | | | |
| — external | 103,249 | 204,444 | 33,191 | 2,019 | 26,687 | 5,237 | 374,827 |
| — internal | — | — | — | — | — | — | — |
| Net investment gains | | | | | | | |
| — external | — | — | 35,378 | 460,883 | 158,330 | 11,261 | 665,852 |
| — internal | — | — | — | — | — | — | — |
| Other gains | | | | | | | |
| — external | 2,222 | — | 1,270 | — | — | 7,657 | 11,149 |
| — internal | — | — | — | — | — | 2,625 | (2,625) |
| Total expenses | (393,621) | (43,796) | (303,180) | (65,359) | (46,646) | (336,312) | (1,184,789) |
| Share of profit of investments in associates | — | — | — | — | 581 | 15,677 | 16,258 |
| Profit before income tax | 462,744 | 160,648 | 60,548 | 397,543 | 175,497 | (293,855) | 963,125 |
| Total assets | 7,431,088 | 5,592,952 | 924,019 | 2,058,805 | 3,786,967 | 1,388,989 | 20,448,835 |
| Total liabilities | 7,798,658 | 557,554 | 122,924 | 653,085 | 3,199,553 | 3,768,414 | 16,100,188 |
| Supplemental information | | | | | | | |
| Depreciation and amortization | 25,472 | 2,466 | 3,632 | 17 | 104 | 11,438 | 43,129 |
| Impairment reversal/(provision) | — | — | — | — | 531 | (814) | (283) |
| Capital expenditure | 2,737 | 27 | 316 | 10 | 72 | 29,810 | 32,972 |

II NOTES TO THE FINANCIAL INFORMATION — continued**53 Financial risk management**

53.1 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 and Risk Management Department and Internal Audit Department; and (iv) Business and management departments and securities branches.

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.

II NOTES TO THE FINANCIAL INFORMATION — continued**53 Financial risk management — continued**

53.1 Summary — continued

Level 3: Compliance and 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 and Risk Management Department, and Internal Audit Department work together to manage risks.

The Compliance Management (Legal Affairs) Team 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 securities branches, 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 securities branches 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 Team 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 securities branches.

Internal Audit Department has overall responsibility for the internal audit, including organizing 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 securities branches

The fourth level of risk control is the front-line risk control systems by business and management departments and securities branches, which are responsible for developing their own internal control system and risk control measures, ensuring proper risk control within their jurisdiction,

II NOTES TO THE FINANCIAL INFORMATION — continued**53 Financial risk management — continued**

53.1 Summary — continued

and reporting risk issues in a timely manner to the Risk Management Department or Compliance Management (Legal Affairs) Department. Compliance and risk management controllers have been set in business department to assist people who are in charge to launch work with regards to risk recognition, evaluation, response and report in order to ensure each policy at the institution has been executed, also, reporting risk situation to company's risk management department timely and accepting business guidance.

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.

53.2 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 at fair value through profit or loss, 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 December 31, 2014, 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. 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.

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.2 Credit risk — continued

(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

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Refundable deposits | 106,713 | 34,153 | 88,083 |
| Other current assets | 38,477 | 152,890 | 179,779 |
| Margin accounts receivable | 189,653 | 1,146,952 | 3,738,358 |
| Held-to-maturity financial assets | — | — | 10,000 |
| Available-for-sale financial assets | | | |
| — Securities lent to clients | 1,320 | 3,449 | 61,866 |
| Financial assets held under resale agreements | — | 460,620 | 1,460,909 |
| Financial assets at fair value through profit or loss | | | |
| — Debt securities | 135,548 | 4,395,816 | 3,824,798 |
| Clearing settlement funds | 1,160,882 | 1,276,891 | 2,775,549 |
| Cash held for brokerage clients | 2,977,368 | 2,783,640 | 5,718,733 |
| Bank balances | 1,908,224 | 578,633 | 950,406 |
| Assets of disposal group classified as held for sale | | | |
| Refundable deposits | 258,403 | — | — |
| Other current assets | 35,626 | — | — |
| Clearing settlement funds | 414,756 | — | — |
| Cash held for brokerage clients | 619,993 | — | — |
| Bank balances | 176,370 | — | — |
| | 8,023,333 | 10,833,044 | 18,808,481 |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Refundable deposits | 106,013 | 33,413 | 86,506 |
| Other current assets | 21,152 | 77,584 | 83,133 |
| Margin accounts receivable | 189,653 | 1,146,952 | 3,738,358 |
| Available-for-sale financial assets | | | |
| — Securities lent to clients | 1,320 | 3,449 | 61,866 |
| Financial assets held under resale agreements | — | 299,741 | 961,907 |
| Financial assets at fair value through profit or loss | | | |
| — Debt securities | 102,515 | 2,763,125 | 996,158 |
| Clearing settlement funds | 1,160,364 | 1,253,964 | 2,711,787 |
| Cash held for brokerage clients | 2,917,076 | 2,494,994 | 5,365,337 |
| Bank balances | 1,058,585 | 35,478 | 410,472 |
| | 5,556,678 | 8,108,700 | 14,415,524 |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.2 Credit risk — continued

(2) Rating distribution of debt investment

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

| | <u>Financial assets at fair value through profit or loss</u> |
|-------------------|--|
| December 31, 2012 | |
| AAA | — |
| AA- to AA+ | 36,245 |
| A- to A+ | — |
| Unrated | <u>99,303</u> |
| | <u>135,548</u> |

The Group

| | <u>Financial assets at fair value through profit or loss</u> |
|-------------------|--|
| December 31, 2013 | |
| AAA | 1,627,527 |
| AA- to AA+ | 2,200,014 |
| A- to A+ | — |
| Unrated | <u>568,275</u> |
| | <u>4,395,816</u> |

The Group

| | <u>Financial assets at fair value through profit or loss</u> | <u>Held-to-maturity financial assets</u> |
|-------------------|--|--|
| December 31, 2014 | | |
| AAA | 239,658 | — |
| AA- to AA+ | 3,075,768 | — |
| A- to A+ | — | — |
| Unrated | <u>509,372</u> | <u>10,000</u> |
| | <u>3,824,798</u> | <u>10,000</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.2 Credit risk — continued

(2) Rating distribution of debt investment — continued

The Company

| | <u>Financial assets at fair value through profit or loss</u> |
|-------------------|--|
| December 31, 2012 | |
| AAA | — |
| AA- to AA+ | 3,212 |
| A- to A+ | — |
| Unrated | <u>99,303</u> |
| | <u>102,515</u> |

The Company

| | <u>Financial assets at fair value through profit or loss</u> |
|-------------------|--|
| December 31, 2013 | |
| AAA | 1,627,527 |
| AA- to AA+ | 945,378 |
| A- to A+ | — |
| Unrated | <u>190,220</u> |
| | <u>2,763,125</u> |

The Company

| | <u>Financial assets at fair value through profit or loss</u> |
|-------------------|--|
| December 31, 2014 | |
| AAA | 224,076 |
| AA- to AA+ | 737,082 |
| A- to A+ | — |
| Unrated | <u>35,000</u> |
| | <u>996,158</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.2 Credit risk — continued

(3) Allowance analysis for other current assets

The Group

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Individually assessed and impaired gross amount | — | — | — |
| Impairment allowance | — | — | — |
| | <u>—</u> | <u>—</u> | <u>—</u> |
| Collectively assessed and impaired gross amount | 23,859 | 32,536 | 13,466 |
| Impairment allowance | (952) | (683) | (1,199) |
| | <u>22,907</u> | <u>31,853</u> | <u>12,267</u> |
| Overdue but not impaired | — | — | — |
| Neither overdue nor impaired | 15,570 | 121,037 | 167,512 |
| | <u>38,477</u> | <u>152,890</u> | <u>179,779</u> |

The Company

| | December 31, 2012 | December 31, 2013 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Individually assessed and impaired gross amount | — | — | — |
| Impairment allowance | — | — | — |
| | <u>—</u> | <u>—</u> | <u>—</u> |
| Collectively assessed and impaired gross amount | 7,979 | 11,824 | 18,304 |
| Impairment allowance | (451) | (633) | (1,447) |
| | <u>7,528</u> | <u>11,191</u> | <u>16,857</u> |
| Overdue but not impaired | — | — | — |
| Neither overdue nor impaired | 13,624 | 66,393 | 66,276 |
| | <u>21,152</u> | <u>77,584</u> | <u>83,133</u> |

53.3 Market risk

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.

53.3.1 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 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. Debt securities of the Group and the Company mainly comprise corporate bonds, and the

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

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

| As at December 31, 2012 | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | Total |
|---|-------------------|---------------|-----------------------|----------------|------------------|-------------------------|------------------|
| Financial assets | | | | | | | |
| Refundable deposits | 92,325 | — | — | — | — | 14,388 | 106,713 |
| Other current assets | — | — | — | — | — | 38,477 | 38,477 |
| Margin accounts receivable | 134,053 | 35,239 | 20,361 | — | — | — | 189,653 |
| Available-for-sale financial assets | — | — | — | — | — | 117,971 | 117,971 |
| Financial assets held under resale agreements | — | — | — | — | — | — | — |
| Financial assets at fair value through profit or loss | — | — | — | 122,310 | 13,238 | 594,573 | 730,121 |
| Clearing settlement funds | 1,160,882 | — | — | — | — | — | 1,160,882 |
| Cash held for brokerage clients | 2,977,368 | — | — | — | — | — | 2,977,368 |
| Cash and bank balances . . . | 1,908,224 | — | — | — | — | 2 | 1,908,226 |
| | <u>6,272,852</u> | <u>35,239</u> | <u>20,361</u> | <u>122,310</u> | <u>13,238</u> | <u>765,411</u> | <u>7,229,411</u> |
| Financial assets of disposal group classified as held for sale | | | | | | | |
| Refundable deposits | 258,403 | — | — | — | — | — | 258,403 |
| Other current assets | — | — | — | — | — | 35,626 | 35,626 |
| Available-for-sale financial assets | — | — | — | — | — | 60,000 | 60,000 |
| Financial assets at fair value through profit or loss | — | — | — | — | — | 21,650 | 21,650 |
| Clearing settlement funds | — | — | — | — | — | 414,756 | 414,756 |
| Cash held for brokerage clients | 619,993 | — | — | — | — | — | 619,993 |
| Cash and bank balances . . . | 176,343 | — | — | — | — | 27 | 176,370 |
| | <u>1,054,739</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>532,059</u> | <u>1,586,798</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Group

| As at December 31, 2012 | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | Total |
|--|--------------------|---------------|-----------------------|------------------|------------------|-------------------------|--------------------|
| Financial liabilities | | | | | | | |
| Bonds in issue | — | — | — | (650,000) | — | — | (650,000) |
| Other current liabilities | — | — | — | — | — | (108,185) | (108,185) |
| Financial assets sold under repurchase agreements | — | — | — | — | — | — | — |
| Financial liabilities at fair value through profit or loss | — | — | — | — | — | (27,345) | (27,345) |
| Accounts payable to brokerage clients | (3,892,646) | — | — | — | — | — | (3,892,646) |
| Liabilities of disposal group classified as held for sale | | | | | | | |
| Other current liabilities | — | — | — | — | — | (2,478) | (2,478) |
| Accounts payable to brokerage clients | — | — | — | — | — | (1,244,257) | (1,244,257) |
| | <u>(3,892,646)</u> | <u>—</u> | <u>—</u> | <u>(650,000)</u> | <u>—</u> | <u>(1,382,265)</u> | <u>(5,924,911)</u> |
| Interest rate sensitivity gap . . . | <u>3,434,945</u> | <u>35,239</u> | <u>20,361</u> | <u>(527,690)</u> | <u>13,238</u> | <u>(84,795)</u> | <u>2,891,298</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Company

As at December 31, 2012

| | <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> |
|---|---------------------------|-------------------|-------------------------------|------------------|--------------------------|---------------------------------|--------------------|
| Financial assets | | | | | | | |
| Refundable deposits . . . | 91,625 | — | — | — | — | 14,388 | 106,013 |
| Other current assets | — | — | — | — | — | 21,152 | 21,152 |
| Margin accounts receivable | 134,053 | 35,239 | 20,361 | — | — | — | 189,653 |
| Available-for-sale financial assets | — | — | — | — | — | 102,503 | 102,503 |
| Financial assets held under resale agreements | — | — | — | — | — | — | — |
| Financial assets at fair value through profit or loss | — | — | — | 99,303 | 3,212 | 584,573 | 687,088 |
| Clearing settlement funds | 1,160,364 | — | — | — | — | — | 1,160,364 |
| Cash held for brokerage clients | 2,917,076 | — | — | — | — | — | 2,917,076 |
| Cash and bank balances | 1,058,585 | — | — | — | — | 2 | 1,058,587 |
| | <u>5,361,703</u> | <u>35,239</u> | <u>20,361</u> | <u>99,303</u> | <u>3,212</u> | <u>722,618</u> | <u>6,242,436</u> |
| Financial liabilities | | | | | | | |
| Bonds in issue | — | — | — | (650,000) | — | — | (650,000) |
| Other current liabilities | — | — | — | — | — | (101,057) | (101,057) |
| Financial assets sold under repurchase agreements | — | — | — | — | — | — | — |
| Accounts payable to brokerage clients | (3,892,646) | — | — | — | — | — | (3,892,646) |
| | <u>(3,892,646)</u> | <u>—</u> | <u>—</u> | <u>(650,000)</u> | <u>—</u> | <u>(101,057)</u> | <u>(4,643,703)</u> |
| Interest rate sensitivity gap | <u>1,469,057</u> | <u>35,239</u> | <u>20,361</u> | <u>(550,697)</u> | <u>3,212</u> | <u>621,561</u> | <u>1,598,733</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Group

As at December 31, 2013

| | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | Total |
|--|--------------------|------------------|-----------------------|------------------|------------------|-------------------------|--------------------|
| Financial assets | | | | | | | |
| Refundable deposits . . . | 34,153 | — | — | — | — | — | 34,153 |
| Other current assets . . . | — | — | — | — | — | 152,887 | 152,887 |
| Margin accounts receivable | 428,296 | 405,304 | 313,352 | — | — | — | 1,146,952 |
| Available-for-sale financial assets | — | — | — | — | — | 325,988 | 325,988 |
| Financial assets held under resale agreements | 162,553 | 4,594 | 221,473 | 72,000 | — | — | 460,620 |
| Financial assets at fair value through profit or loss | 19,975 | 1,010,540 | 750,405 | 1,087,085 | 1,527,811 | 413,307 | 4,809,123 |
| Clearing settlement funds | 1,276,891 | — | — | — | — | — | 1,276,891 |
| Cash held for brokerage clients . . . | 2,783,640 | — | — | — | — | — | 2,783,640 |
| Cash and bank balances | 578,633 | — | — | — | — | 97 | 578,730 |
| | <u>5,284,141</u> | <u>1,420,438</u> | <u>1,285,230</u> | <u>1,159,085</u> | <u>1,527,811</u> | <u>892,279</u> | <u>11,568,984</u> |
| Financial liabilities | | | | | | | |
| Bonds in issue | — | — | — | (650,000) | — | — | (650,000) |
| Other current liabilities | — | — | — | — | — | (119,475) | (119,475) |
| Due to other financial institutions | (200,000) | — | — | — | — | — | (200,000) |
| Financial assets sold under repurchase agreements | (2,585,674) | — | — | — | — | — | (2,585,674) |
| Financial liabilities at fair value through profit or loss | — | — | — | — | — | (1,375,733) | (1,375,733) |
| Accounts payable to brokerage clients . . . | (3,455,869) | — | — | — | — | — | (3,455,869) |
| | <u>(6,241,543)</u> | <u>—</u> | <u>—</u> | <u>(650,000)</u> | <u>—</u> | <u>(1,495,208)</u> | <u>(8,386,751)</u> |
| Interest rate sensitivity gap | | | | | | | |
| | <u>(957,402)</u> | <u>1,420,438</u> | <u>1,285,230</u> | <u>509,085</u> | <u>1,527,811</u> | <u>(602,929)</u> | <u>3,182,233</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Company

As at 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> |
|----------------------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|---------------------------------|--------------------|
| Financial assets | | | | | | | |
| Refundable deposits . . . | 33,413 | — | — | — | — | — | 33,413 |
| Other current assets . . . | — | — | — | — | — | 77,584 | 77,584 |
| Margin accounts | | | | | | | |
| receivable | 428,296 | 405,304 | 313,352 | — | — | — | 1,146,952 |
| Available-for-sale | | | | | | | |
| financial assets | — | — | — | — | — | 278,814 | 278,814 |
| Financial assets held | | | | | | | |
| under resale | | | | | | | |
| agreements | 1,674 | 4,594 | 221,473 | 72,000 | — | — | 299,741 |
| Financial assets at fair | | | | | | | |
| value through profit | | | | | | | |
| or loss | — | 1,010,540 | 700,261 | 412,236 | 640,088 | 135,381 | 2,898,506 |
| Clearing settlement | | | | | | | |
| funds | 1,253,964 | — | — | — | — | — | 1,253,964 |
| Cash held for | | | | | | | |
| brokerage clients . . . | 2,494,994 | — | — | — | — | — | 2,494,994 |
| Cash and bank | | | | | | | |
| balances | 35,478 | — | — | — | — | 97 | 35,575 |
| | <u>4,247,819</u> | <u>1,420,438</u> | <u>1,235,086</u> | <u>484,236</u> | <u>640,088</u> | <u>491,876</u> | <u>8,519,543</u> |
| Financial liabilities | | | | | | | |
| Bonds in issue | — | — | — | (650,000) | — | — | (650,000) |
| Other current | | | | | | | |
| liabilities | — | — | — | — | — | (63,396) | (63,396) |
| Due to other financial | | | | | | | |
| institutions | (200,000) | — | — | — | — | — | (200,000) |
| Financial assets sold | | | | | | | |
| under repurchase | | | | | | | |
| agreements | (2,087,399) | — | — | — | — | — | (2,087,399) |
| Accounts payable to | | | | | | | |
| brokerage clients . . . | (3,455,869) | — | — | — | — | — | (3,455,869) |
| | <u>(5,743,268)</u> | <u>—</u> | <u>—</u> | <u>(650,000)</u> | <u>—</u> | <u>(63,396)</u> | <u>(6,456,664)</u> |
| Interest rate | | | | | | | |
| sensitivity gap | <u>(1,495,449)</u> | <u>1,420,438</u> | <u>1,235,086</u> | <u>(165,764)</u> | <u>640,088</u> | <u>428,480</u> | <u>2,062,879</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Group

As at December 31, 2014

| | <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> |
|--|---------------------------|-------------------|-------------------------------|------------------|--------------------------|---------------------------------|-------------------|
| Financial assets | | | | | | | |
| Refundable deposits | 74,738 | — | — | — | — | 13,345 | 88,083 |
| Other current assets | — | — | — | — | — | 179,779 | 179,779 |
| Margin accounts receivable | 49,284 | 313,849 | 3,375,225 | — | — | — | 3,738,358 |
| Held-to-maturity financial asset . . | — | — | — | — | 10,000 | — | 10,000 |
| Available-for-sale financial assets | — | — | — | — | — | 889,073 | 889,073 |
| Financial assets held under resale agreements | 304,682 | 75,000 | 596,227 | 485,000 | — | — | 1,460,909 |
| Financial assets at fair value through profit or loss | — | 74,968 | 159,694 | 1,606,780 | 1,983,356 | 455,095 | 4,279,893 |
| Clearing settlement funds | 2,775,549 | — | — | — | — | — | 2,775,549 |
| Cash held for brokerage clients | 5,718,733 | — | — | — | — | — | 5,718,733 |
| Cash and bank balances | 950,406 | — | — | — | — | 11 | 950,417 |
| | <u>9,873,392</u> | <u>463,817</u> | <u>4,131,146</u> | <u>2,091,780</u> | <u>1,993,356</u> | <u>1,537,303</u> | <u>20,090,794</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Group

As at December 31, 2014

| | <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> |
|--|---------------------------|--------------------|-------------------------------|--------------------|--------------------------|---------------------------------|---------------------|
| Financial liabilities | | | | | | | |
| Bonds in issue | — | (300,000) | — | (2,150,000) | — | — | (2,450,000) |
| Other current liabilities | — | — | — | — | — | (216,708) | (216,708) |
| Due to other financial institutions | — | (300,000) | (250,000) | — | — | — | (550,000) |
| Financial assets sold under repurchase agreements | (1,521,098) | (400,000) | (330,000) | — | — | — | (2,251,098) |
| Financial liabilities at fair value through profit or loss | — | — | — | — | — | (2,495,469) | (2,495,469) |
| Accounts payable to brokerage clients | (7,768,782) | — | — | — | — | — | (7,768,782) |
| | <u>(9,289,880)</u> | <u>(1,000,000)</u> | <u>(580,000)</u> | <u>(2,150,000)</u> | <u>—</u> | <u>(2,712,177)</u> | <u>(15,732,057)</u> |
| Interest rate sensitivity gap | <u>583,512</u> | <u>(536,183)</u> | <u>3,551,146</u> | <u>(58,220)</u> | <u>1,993,356</u> | <u>(1,174,874)</u> | <u>4,358,737</u> |

The Company

As at December 31, 2014

| | <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> |
|---|---------------------------|-------------------|-------------------------------|------------------|--------------------------|---------------------------------|-------------------|
| Financial assets | | | | | | | |
| Refundable deposits | 86,506 | — | — | — | — | — | 86,506 |
| Other current assets | — | — | — | — | — | 83,133 | 83,133 |
| Margin accounts receivable | 49,284 | 313,849 | 3,375,225 | — | — | — | 3,738,358 |
| Available-for-sale financial assets | — | — | — | — | — | 849,450 | 849,450 |
| Financial assets held under resale agreements | 30,680 | 75,000 | 506,227 | 350,000 | — | — | 961,907 |
| Financial assets at fair value through profit or loss | — | 54,971 | 109,694 | 381,393 | 450,100 | 203,481 | 1,199,639 |
| Clearing settlement funds | 2,711,787 | — | — | — | — | — | 2,711,787 |
| Cash held for brokerage clients | 5,365,337 | — | — | — | — | — | 5,365,337 |
| Cash and bank balances | 410,472 | — | — | — | — | 11 | 410,483 |
| | <u>8,654,066</u> | <u>443,820</u> | <u>3,991,146</u> | <u>731,393</u> | <u>450,100</u> | <u>1,136,075</u> | <u>15,406,600</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Company

As at December 31, 2014

| | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Above 5 years | Non-interest bearing | Total |
|---|--------------------|--------------------|-----------------------|--------------------|------------------|-------------------------|---------------------|
| Financial liabilities | | | | | | | |
| Bonds in issue | — | (300,000) | — | (2,150,000) | — | — | (2,450,000) |
| Other current liabilities | — | — | — | — | — | (123,522) | (123,522) |
| Due to other financial institutions | — | (300,000) | (250,000) | — | — | — | (550,000) |
| Financial assets sold under repurchase agreements | (852,500) | (400,000) | (330,000) | — | — | — | (1,582,500) |
| Accounts payable to brokerage clients | (7,768,782) | — | — | — | — | — | (7,768,782) |
| | <u>(8,621,282)</u> | <u>(1,000,000)</u> | <u>(580,000)</u> | <u>(2,150,000)</u> | <u>—</u> | <u>(123,522)</u> | <u>(12,474,804)</u> |
| Interest rate sensitivity gap | <u>(32,784)</u> | <u>(556,180)</u> | <u>3,411,146</u> | <u>(1,418,607)</u> | <u>450,100</u> | <u>1,012,554</u> | <u>2,931,797</u> |

Sensitivity analysis

The following table illustrates the potential impact, of a parallel upward or downward shift of 100 basis points in interest rate curves on the Group's net profit and equity for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period.

The sensitivity analysis on net profit and equity is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements.

The Group

| | <u>Year ended December 31,</u> | | |
|-------------------------------|--------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| Net profit and equity | | | |
| Increases by 100bps | <u>22,820</u> | <u>(61,116)</u> | <u>(62,612)</u> |
| Decreases by 100bps | <u>(22,755)</u> | <u>63,828</u> | <u>66,303</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.1 Interest rate risk — continued

The Company

| | Year ended December 31, | | |
|---------------------------|-------------------------|-----------------|----------------|
| | 2012 | 2013 | 2014 |
| Net profit and equity | | | |
| Increases by 100bps | <u>9,391</u> | <u>(27,122)</u> | <u>(9,065)</u> |
| Decreases by 100bps | <u>(9,360)</u> | <u>28,241</u> | <u>9,736</u> |

When conducting interest rate sensitivity analysis, the Group makes 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 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 in the same direction and extend;
- necessary measures that may be adopted by the Group and the Company in response to interest rate changes not considered.

53.3.2 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.

53.3.3 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

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.3 Market risk — continued

53.3.3 Price risk — continued

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 after income tax and equity 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 after income tax and equity, while a negative result indicates otherwise.

The Group

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------------|-----------------|
| | 2012 | 2013 | 2014 |
| Profit after income tax | | | |
| Increase by 10% | <u>44,593</u> | <u>30,998</u> | <u>34,132</u> |
| Decrease by 10% | <u>(44,593)</u> | <u>(30,998)</u> | <u>(34,132)</u> |
| | Year ended December 31, | | |
| | 2012 | 2013 | 2014 |
| Equity | | | |
| Increase by 10% | <u>53,441</u> | <u>52,533</u> | <u>97,899</u> |
| Decrease by 10% | <u>(53,441)</u> | <u>(52,533)</u> | <u>(97,899)</u> |

The Company

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------------|-----------------|
| | 2012 | 2013 | 2014 |
| Profit after income tax | | | |
| Increase by 10% | <u>43,843</u> | <u>10,154</u> | <u>15,261</u> |
| Decrease by 10% | <u>(43,843)</u> | <u>(10,154)</u> | <u>(15,261)</u> |
| | Year ended December 31, | | |
| | 2012 | 2013 | 2014 |
| Equity | | | |
| Increase by 10% | <u>51,531</u> | <u>29,265</u> | <u>77,170</u> |
| Decrease by 10% | <u>(51,531)</u> | <u>(29,265)</u> | <u>(77,170)</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued**53 Financial risk management — continued**

53.4 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 centralized manner. The Company's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can effectively recognize, measure, monitor and control liquidity risk and ensure that its liquidity needs can be met timely with a reasonable cost.

The Group's and the Company's financial department organizes and prepares the cash budget annually and make the financing plan based on the cash budget. Under the approval of the Company, the funds will be raised, scheduled and arranged uniformly in order to ensure the unity of funds demand and cost of the capital control.

Under the approval by the investment decision committee, the financial department confirm the scale and the structure for a high quality liquid assets reserve, by analyzing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so that the liquidity and the risk resistance can be accordingly improved.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group. The Group invests surplus cash in negotiable bank 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 December 31, 2012 and 2013 and 2014 the Group held cash and cash equivalents of approximately RMB2,143,486 thousand, RMB843,794 thousand and RMB1,472,282 thousand respectively that are expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds financial assets at fair value through profit or loss of RMB730,121 thousand, RMB4,809,123 thousand and RMB4,279,893 thousand at each of the respective period end, which could be readily realized to provide a further source of cash if the need arose.

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.4 Liquidity risk — continued

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**As at December 31, 2012**

| | <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>Above 5 years</u> | <u>Total</u> |
|--|------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|------------------|
| Non-derivative financial liabilities | | | | | | | |
| Other current liabilities . . . | 59,693 | — | 48,492 | — | — | — | 108,185 |
| Bonds in issue | — | — | 10,108 | 30,323 | 735,734 | — | 776,165 |
| Financial liabilities at fair value through profit or loss | — | — | — | 27,345 | — | — | 27,345 |
| Accounts payable to brokerage clients | 3,892,646 | — | — | — | — | — | 3,892,646 |
| Liabilities of disposal group classified as held-for-sale | | | | | | | |
| Other current liabilities . . . | 2,478 | — | — | — | — | — | 2,478 |
| Accounts payable to brokerage clients | 1,244,257 | — | — | — | — | — | 1,244,257 |
| | <u>5,199,074</u> | <u>—</u> | <u>58,600</u> | <u>57,668</u> | <u>735,734</u> | <u>—</u> | <u>6,051,076</u> |

The Company**As at December 31, 2012**

| | <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>Above 5 years</u> | <u>Total</u> |
|---|------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|------------------|
| Non-derivative financial liabilities | | | | | | | |
| Other current liabilities . . . | 59,692 | — | 41,365 | — | — | — | 101,057 |
| Bonds in issue | — | — | 10,108 | 30,323 | 735,734 | — | 776,165 |
| Accounts payable to brokerage clients | 3,892,646 | — | — | — | — | — | 3,892,646 |
| | <u>3,952,338</u> | <u>—</u> | <u>51,473</u> | <u>30,323</u> | <u>735,734</u> | <u>—</u> | <u>4,769,868</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.4 Liquidity risk — continued

The Group

As at December 31, 2013

| | <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>Above 5 years</u> | <u>Total</u> |
|--|------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|------------------|
| Non-derivative financial liabilities | | | | | | | |
| Other current | | | | | | | |
| liabilities | 41,379 | 1,127 | 6,377 | 70,592 | — | — | 119,475 |
| Bonds in issue | — | — | 10,108 | 30,323 | 695,304 | — | 735,735 |
| Due to other financial institutions | — | 200,259 | — | — | — | — | 200,259 |
| Financial assets sold under repurchase agreements | — | 2,586,947 | — | — | — | — | 2,586,947 |
| Financial liabilities at fair value through profit or loss | — | — | — | 1,096,013 | 279,719 | — | 1,375,732 |
| Accounts payable to brokerage clients . . . | 3,455,869 | — | — | — | — | — | 3,455,869 |
| | <u>3,497,248</u> | <u>2,788,333</u> | <u>16,485</u> | <u>1,196,928</u> | <u>975,023</u> | <u>—</u> | <u>8,474,017</u> |

The Company

As at December 31, 2013

| | <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>Above 5 years</u> | <u>Total</u> |
|---|------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|------------------|
| Non-derivative financial liabilities | | | | | | | |
| Other current liabilities . . | 41,019 | 935 | 2,275 | 19,167 | — | — | 63,396 |
| Bonds in issue | — | — | 10,108 | 30,323 | 695,304 | — | 735,735 |
| Due to other financial institutions | — | 200,259 | — | — | — | — | 200,259 |
| Financial assets sold under repurchase agreements | — | 2,088,350 | — | — | — | — | 2,088,350 |
| Accounts payable to brokerage clients | 3,455,869 | — | — | — | — | — | 3,455,869 |
| | <u>3,496,888</u> | <u>2,289,544</u> | <u>12,383</u> | <u>49,490</u> | <u>695,304</u> | <u>—</u> | <u>6,543,609</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

53 Financial risk management — continued

53.4 Liquidity risk — continued

The Group**As at December 31, 2014**

| | <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>Above 5 years</u> | <u>Total</u> |
|---|------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|-------------------|
| Non-derivative financial liabilities | | | | | | | |
| Other current | | | | | | | |
| liabilities | 115,037 | 41,660 | 356 | 59,457 | 198 | — | 216,708 |
| Bonds in issue | — | — | 319,558 | 123,323 | 2,340,874 | — | 2,783,755 |
| Due to other financial | | | | | | | |
| institutions | — | — | 308,700 | 257,250 | — | — | 565,950 |
| Financial assets sold | | | | | | | |
| under repurchase | | | | | | | |
| agreements | — | 1,525,343 | 409,991 | 352,814 | — | — | 2,288,148 |
| Financial liabilities at | | | | | | | |
| fair value through | | | | | | | |
| profit or loss | 461,936 | 194,479 | 125,294 | 1,486,024 | 227,736 | — | 2,495,469 |
| Accounts payable to | | | | | | | |
| brokerage clients . . . | 7,768,782 | — | — | — | — | — | 7,768,782 |
| | <u>8,345,755</u> | <u>1,761,482</u> | <u>1,163,899</u> | <u>2,278,868</u> | <u>2,568,808</u> | <u>—</u> | <u>16,118,812</u> |

The Company**As at December 31, 2014**

| | <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>Above 5 years</u> | <u>Total</u> |
|---|------------------|---------------------------|-------------------|-------------------------------|------------------|--------------------------|-------------------|
| Non-derivative financial liabilities | | | | | | | |
| Other current | | | | | | | |
| liabilities | 61,240 | 40,802 | — | 21,480 | — | — | 123,522 |
| Bonds in issue | — | — | 319,558 | 123,323 | 2,340,874 | — | 2,783,755 |
| Due to other financial | | | | | | | |
| institutions | — | — | 308,700 | 257,250 | — | — | 565,950 |
| Financial assets sold | | | | | | | |
| under repurchase | | | | | | | |
| agreements | — | 856,543 | 409,991 | 352,814 | — | — | 1,619,348 |
| Accounts payable to | | | | | | | |
| brokerage clients | 7,768,782 | — | — | — | — | — | 7,768,782 |
| | <u>7,830,022</u> | <u>897,345</u> | <u>1,038,249</u> | <u>754,867</u> | <u>2,340,874</u> | <u>—</u> | <u>12,861,357</u> |

53.5 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.

II NOTES TO THE FINANCIAL INFORMATION — continued**53 Financial risk management — continued**

53.5 Capital management — continued

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.

54 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.

54.1 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 amortized 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, financial assets sold under repurchase agreements 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.

The aggregate fair value of bonds in issue is calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

The fair value of held-to-maturity financial assets is calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument 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 December 31, 2012, 2013 and 2014.

The Group

As at December 31, 2012

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|------------------|-----------------|------------------|
| Financial assets at fair value through profit or loss | | | | |
| — Equity securities | 189,801 | — | — | 189,801 |
| — Debt securities | — | 70,548 | 65,000 | 135,548 |
| — Investment funds | 404,772 | — | — | 404,772 |
| Available-for-sale financial assets | | | | |
| — Equity securities | 67,884 | — | — | 67,884 |
| — Debt securities | — | — | — | — |
| — Investment funds | 23,056 | — | — | 23,056 |
| — Collective asset management scheme | — | — | 22,031 | 22,031 |
| — Trust schemes | — | — | 5,000 | 5,000 |
| Assets of disposal group classified as held for sale | — | 1,609,356 | — | 1,609,356 |
| | <u>685,513</u> | <u>1,679,904</u> | <u>92,031</u> | <u>2,457,448</u> |
| Financial liabilities at fair value through profit or loss | — | — | (27,345) | (27,345) |
| Liabilities of disposal group classified as held for sale | — | 1,288,239 | — | 1,288,239 |
| | <u>—</u> | <u>1,288,239</u> | <u>(27,345)</u> | <u>1,260,894</u> |

The Company

As at December 31, 2012

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|----------------|----------------|----------------|
| Financial assets at fair value through profit or loss | | | | |
| — Equity securities | 189,801 | — | — | 189,801 |
| — Debt securities | — | 37,515 | 65,000 | 102,515 |
| — Investment funds | 394,772 | — | — | 394,772 |
| Available-for-sale financial assets | | | | |
| — Equity securities | 67,884 | — | — | 67,884 |
| — Debt securities | — | — | — | — |
| — Investment funds | 23,056 | — | — | 23,056 |
| — Collective asset management scheme | — | — | 11,563 | 11,563 |
| Assets of disposal group classified as held for sale | — | 201,313 | — | 201,313 |
| | <u>675,513</u> | <u>238,828</u> | <u>76,563</u> | <u>990,904</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

The Group

As at December 31, 2013

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|------------------|--------------------|--------------------|
| Financial assets at fair value through profit or loss | | | | |
| — Equity securities | 358,343 | — | — | 358,343 |
| — Debt securities | — | 3,975,816 | 420,000 | 4,395,816 |
| — Investment funds | 54,964 | — | — | 54,964 |
| Available-for-sale financial assets | | | | |
| — Equity securities | 186,619 | 58,687 | — | 245,306 |
| — Debt securities | — | — | — | — |
| — Investment funds | 1,213 | — | — | 1,213 |
| — Collective asset management schemes | — | — | 22,617 | 22,617 |
| — Trust schemes | — | — | 18,000 | 18,000 |
| — Investment in unlisted companies | — | — | 38,852 | 38,852 |
| | <u>601,139</u> | <u>4,034,503</u> | <u>499,469</u> | <u>5,135,111</u> |
| Financial liabilities at fair value through profit or loss | | | | |
| loss | <u>—</u> | <u>—</u> | <u>(1,375,723)</u> | <u>(1,375,723)</u> |

The Company

As at December 31, 2013

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|------------------|----------------|------------------|
| Financial assets at fair value through profit or loss | | | | |
| — Equity securities | 90,141 | — | — | 90,141 |
| — Debt securities | — | 2,663,125 | 100,000 | 2,763,125 |
| — Investment funds | 45,240 | — | — | 45,240 |
| Available-for-sale financial assets | | | | |
| — Equity securities | 186,619 | 58,687 | — | 245,306 |
| — Debt securities | — | — | — | — |
| — Investment funds | 1,213 | — | — | 1,213 |
| — Collective asset management schemes | — | — | 8,295 | 8,295 |
| — Investment in unlisted companies | — | — | 24,000 | 24,000 |
| | <u>323,213</u> | <u>2,721,812</u> | <u>132,295</u> | <u>3,177,320</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

The Group

As at December 31, 2014

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|------------------|------------------|--------------------|--------------------|
| Financial assets at fair value through profit or loss | | | | |
| — Equity securities | 361,604 | — | — | 361,604 |
| — Debt securities | — | 3,432,127 | 392,671 | 3,824,798 |
| — Investment funds | 93,491 | — | — | 93,491 |
| Available-for-sale financial assets | | | | |
| — Equity securities | 572,150 | 57,923 | — | 630,073 |
| — Investment funds | 154,345 | — | — | 154,345 |
| — Collective asset management scheme | — | — | 52,804 | 52,804 |
| — Trust schemes | — | — | 13,000 | 13,000 |
| — Investment in unlisted companies | — | — | 38,852 | 38,852 |
| | <u>1,181,590</u> | <u>3,490,050</u> | <u>497,327</u> | <u>5,168,967</u> |
| Financial liabilities at fair value through profit or loss | <u>—</u> | <u>—</u> | <u>(2,495,469)</u> | <u>(2,495,469)</u> |

The Company

As at December 31, 2014

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|------------------|----------------|------------------|
| Financial assets at fair value through profit or loss | | | | |
| — Equity securities | 182,992 | — | — | 182,992 |
| — Debt securities | — | 961,158 | 35,000 | 996,158 |
| — Investment funds | 20,489 | — | — | 20,489 |
| Available-for-sale financial assets | | | | |
| — Equity securities | 572,150 | 57,923 | — | 630,073 |
| — Debt securities | — | — | — | — |
| — Investment funds | 154,345 | — | — | 154,345 |
| — Collective asset management scheme | — | — | 41,032 | 41,032 |
| — Trust schemes | — | — | — | — |
| — Investment in unlisted companies | — | — | 24,000 | 24,000 |
| | <u>929,976</u> | <u>1,019,081</u> | <u>100,032</u> | <u>2,049,089</u> |

For the years ended December 31, 2012, 2013 and 2014, there were no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group and the Company.

(1) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices 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

II NOTES TO THE FINANCIAL INFORMATION — continued**54 Fair value of financial assets and liabilities — continued**

54.2 Financial instrument measured at fair value — continued

(1) Financial instruments in Level 1 — continued

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.

(2) 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.

(3) Valuation methods for specific investments

As at December 31, 2012, 2013 and 2014, the Group's and Company's valuation methods for specific investments are as follows:

- (a) 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 or a private offering of additional shares, fair values are determined using valuation techniques.
- (b) For closed-end investment funds, fair value is determined based on the closing price as at the reporting date. For open-end funds fair value is determined by trading price which is based on the net asset value as at the reporting date. For collective asset management products, fair value is determined based on the net asset value as at the reporting date.

Financial assets at fair value through profit or loss — Debt Securities

- (c) 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 of the debt securities at the date of statements of financial position within bid-ask spread.
- (d) 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, asset-backed securities and other fixed income debt securities, fair values are determined using valuation techniques.

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

(4) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the years ended December 31, 2012, 2013 and 2014.

The Group

| | Available-for-sale financial assets - Collective asset management scheme | Available-for-sale financial assets - Trust schemes | Available-for-sale financial assets - Debt Securities |
|---|--|---|---|
| Balance at January 1, 2012 | 11,784 | — | — |
| Increase | 20,468 | 5,000 | 65,000 |
| Decrease | (10,221) | — | — |
| Balance at December 31, 2012 | <u>22,031</u> | <u>5,000</u> | <u>65,000</u> |
| Total gains or losses for the year included in profit or loss for assets held at end of year, under “Net investment gains” | <u>77</u> | <u>—</u> | <u>1,543</u> |
| Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year | <u>77</u> | <u>—</u> | <u>—</u> |

The Group

| | Available-for-sale financial assets - Collective asset management scheme | Available-for- sale financial assets - Trust schemes | Available-for-sale financial assets - Investment in unlisted companies | Financial assets at fair value through profit or loss - Debt Securities |
|---|--|---|--|--|
| Balance at January 1, 2013 | 22,031 | 5,000 | — | 65,000 |
| Increase | 99,108 | 13,000 | 38,852 | 355,000 |
| Decrease | (98,522) | — | — | — |
| Balance at December 31, 2013 | <u>22,617</u> | <u>18,000</u> | <u>38,852</u> | <u>420,000</u> |
| Total gains or losses for the year included in profit or loss for assets held at end of year, under “Net investment gains” | <u>168</u> | <u>1,045</u> | <u>—</u> | <u>34,610</u> |
| Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year | <u>168</u> | <u>1,045</u> | <u>—</u> | <u>—</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

(4) Financial instruments in Level 3 — continued

The Group

| | Available-for-sale financial assets - Collective asset management scheme | Available-for- sale financial assets - Trust schemes | Available-for-sale financial assets - Investment in unlisted companies | Financial assets at fair value through profit or loss - Debt Securities |
|---|--|---|--|--|
| Balance at January 1, 2014 | 22,617 | 18,000 | 38,852 | 420,000 |
| Increase | 157,022 | — | — | 89,671 |
| Decrease | (126,836) | (5,000) | — | (117,000) |
| Balance at December 31, 2014 | <u>52,803</u> | <u>13,000</u> | <u>38,852</u> | <u>392,671</u> |
| Total gains or losses for the year included in profit or loss for assets held at end of year, under “Net investment gains” | <u>2,341</u> | <u>450</u> | <u>—</u> | <u>10,323</u> |
| Change in unrealised gains or losses for the year included in profit or loss for assets held at end of year | <u>4,120</u> | <u>450</u> | <u>—</u> | <u>—</u> |

The Group

| | Financial liabilities at fair value through profit or loss |
|---|---|
| Balance at January 1, 2012 | — |
| Consolidation of SEs as presented in Note 3.2.5 | 154,182 |
| Losses recognized in profit or loss | — |
| Purchases | 79,345 |
| Settlements | (206,182) |
| Balance at December 31, 2012 | <u>27,345</u> |
| Total gains or losses for the year included in profit or loss for liabilities held at the end of year, under “Net investment losses” | <u>—</u> |
| Change in unrealized gains or losses for the year included in profit or loss for liabilities held at the end of the year | <u>—</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

(4) Financial instruments in Level 3 — continued

The Group

| | Financial liabilities at fair value through profit or loss |
|--|---|
| Balance at January 1, 2013 | 27,345 |
| Consolidation of SEs as presented in Note 3.2.5 | 1,586,108 |
| Losses recognized in profit or loss | (55,652) |
| Purchases | 10,322,463 |
| Settlements | <u>(10,504,531)</u> |
| Balance at December 31, 2013 | <u>1,375,733</u> |
| Total gains or losses for the year included in profit or loss for liabilities held at the end of year, under "Net investment losses" | <u>(55,652)</u> |
| Change in unrealized gains or losses for the year included in profit or loss for liabilities held at the end of the year | <u>(29,111)</u> |

The Group

| | Financial liabilities at fair value through profit or loss |
|--|---|
| Balance at January 1, 2014 | 1,375,733 |
| Consolidation of SEs as presented in Note 3.2.5 | 173,155 |
| Losses recognized in profit or loss | (143,848) |
| Purchases | 19,951,620 |
| Settlements | <u>(18,861,191)</u> |
| Balance at December 31, 2014 | <u>2,495,469</u> |
| Total gains or losses for the year included in profit or loss for liabilities held at the end of year, under "Net investment losses" | <u>(143,848)</u> |
| Change in unrealized gains or losses for the year included in profit or loss for liabilities held at the end of the year | <u>(36,296)</u> |

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

(4) Financial instruments in Level 3 — continued

| <u>Financial assets/ financial liabilities</u> | <u>Fair value hierarchy</u> | <u>Valuation technique(s) and key input(s)</u> | <u>Significant unobservable input(s)</u> | <u>Relationship of unobservable input(s) to fair value</u> |
|--|---------------------------------|---|---|--|
| Financial assets at fair value through profit or loss -Debt securities | Level 3 | <ul style="list-style-type: none"> Discounted cash flow 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. | <ul style="list-style-type: none"> Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level. | <ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the maturity date, the higher the fair value. The lower the discount rate, the higher the fair value |
| Financial liabilities designated at fair value through profit or loss | Level 3 | <ul style="list-style-type: none"> Discounted cash flow 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. | <ul style="list-style-type: none"> Expected future cash flow. Expected payment date. Discount rates that correspond to the expected risk level. | <ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the payment date, the higher the fair value. The lower the discount rate, the higher the fair value |
| Available-for-sale financial assets-Trust schemes | Level 3 | <ul style="list-style-type: none"> Discounted cash flow 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. | <ul style="list-style-type: none"> Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level. | <ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value |

II NOTES TO THE FINANCIAL INFORMATION — continued

54 Fair value of financial assets and liabilities — continued

54.2 Financial instrument measured at fair value — continued

(4) Financial instruments in Level 3 — continued

| <u>Financial assets/ financial liabilities</u> | <u>Fair value hierarchy</u> | <u>Valuation technique(s) and key input(s)</u> | <u>Significant unobservable input(s)</u> | <u>Relationship of unobservable input(s) to fair value</u> |
|---|---------------------------------|---|---|--|
| Available-for-sale financial assets- Collective asset management scheme | Level 3 | <ul style="list-style-type: none"> Discounted cash flow 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. | <ul style="list-style-type: none"> Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level. | <ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value |
| Available-for-sale financial assets- Equity investments in unlisted companies | Level 3 | <ul style="list-style-type: none"> The Group acquired the investment within one year as at the respective period end. There was no significant changes in operating performance of unlisted companies, so fair value was determined by reference to the transaction price of the equity instruments. | <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> N/A |

II NOTES TO THE FINANCIAL INFORMATION — continued

55 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 December 31, 2012 | | | | Net amount of financial assets/(liabilities) presented in the statements of financial position |
|--|--|---|---|-------------------------|--|
| | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities | Net amounts of financial assets/(liabilities) | Cash paid as settlement | |
| Derivative financial instruments . . . | — | (6,124) | (6,124) | 6,124 | — |

The Group and the Company

| | As at December 31, 2013 | | | | Net amount of financial assets/(liabilities) presented in the statements of financial position |
|--|--|---|---|-----------------------------|--|
| | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities | Net amounts of financial assets/(liabilities) | Cash received as settlement | |
| Derivative financial instruments . . . | — | — | — | — | — |

The Group and the Company

| | As at December 31, 2014 | | | | Net amount of financial assets/(liabilities) presented in the statements of financial position |
|--|--|---|---|-----------------------------|--|
| | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities | Net amounts of financial assets/(liabilities) | Cash received as settlement | |
| Derivative financial instruments . . . | — | (2,149) | (2,149) | 2,149 | — |

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, margin accounts receivable and etc., are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

II NOTES TO THE FINANCIAL INFORMATION — continued**56 Unconsolidated structured entities**

Unconsolidated structured entities of the Group mainly include collective and targeted asset management schemes, trust scheme and investment funds.

Except for the structured entities the Group has consolidated as detailed in Note 3.2.5, in the opinion of the directors of the Company, the variable returns the Group exposed to the structured entities that the Group has interests in are not significant. The Group did not consider itself being the principal and consequently did not consolidate these structured entities.

The total assets of unconsolidated collective and targeted asset management schemes managed by the Group amounted to RMB1,344,984 thousand, RMB6,044,239 thousand, and RMB11,413,423 thousand as at December 31, 2012, 2013 and 2014 respectively.

As at December 31, 2012, 2013 and 2014, the interests in unconsolidated structured entities held by the Group included collective asset management schemes, trust schemes and investment funds that were classified as available-for-sale financial assets or financial assets at fair value through profit or loss. The related carrying amount and the maximum exposure were as follows:

| | <u>December 31, 2012</u> | <u>December 31, 2013</u> | <u>December 31, 2014</u> |
|--|--------------------------|--------------------------|--------------------------|
| Available-for-sale financial assets | 50,087 | 41,830 | 220,148 |
| Financial assets at fair value through profit or loss | 404,772 | 54,964 | 93,491 |
| | <u>454,859</u> | <u>96,794</u> | <u>313,639</u> |

For the years ended December 31, 2012, 2013 and 2014, the income from these unconsolidated structured entities held by the Group was as follows:

| | <u>For the year ended December 31, 2012</u> | <u>For the year ended December 31, 2013</u> | <u>For the year ended December 31, 2014</u> |
|-------------------------------------|---|---|---|
| Net investment gains | 48,403 | 18,316 | 8,330 |
| Fee and commission income | 2,736 | 1,509 | 6,592 |
| | <u>51,139</u> | <u>19,825</u> | <u>14,922</u> |

As at December 31, 2012, 2013 and 2014, the Group did not provide and had no plan to provide financial support to these unconsolidated structured entities.

57 Subsequent events

On January 20, 2015, the Company issued one-year subordinated bonds of RMB1.5 billion at 6.00% per annum.

Pursuant to the resolution of the shareholders' meeting held on April 10, 2015, the Company declared a final cash dividend for the year ended December 31, 2014 of RMB0.07 per ordinary share. The total dividend of RMB105 million has been paid to the shareholders by the date of this report.

III SUBSEQUENT FINANCIAL STATEMENTS

The Group has not prepared audited financial statements for any period between December 31, 2014 and the date of this report.

Yours faithfully,

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 which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of Global Offering as if it had taken place on December 31, 2014 and based on the consolidated net tangible assets attributable to shareholders of the Company as at December 31, 2014 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 December 31, 2014 or at any future date.

| | Audited consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2014 ⁽¹⁾ | Estimated net proceeds from the Global Offering ⁽²⁾ | 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) ⁽³⁾ | (HK\$) ⁽⁵⁾ |
| Based on the Offer Price of HK\$7.10 per share | 4,057,939 | 2,127,470 | 6,185,409 | 3.25 | 4.12 |
| Based on the Offer Price of HK\$8.25 per share | 4,057,939 | 2,477,125 | 6,535,064 | 3.44 | 4.35 |

Notes:

- (1) The audited consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2014 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 December 31, 2014 of RMB4,082,010,000 with an adjustment for the intangible assets and goodwill as of December 31, 2014 of RMB24,071,000.
- (2) The estimated net proceeds from the Global Offering are based on the individual Offer Price of HK\$7.10 and HK\$8.25 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 402,400,000 shares are in issue, assuming the Global Offering had been completed on December 31, 2014 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 December 31, 2014.
- (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 RMB0.7890 to HK\$1.00, the PBOC rate prevailing on June 12, 2015. 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. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, 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 Guolian Securities Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Guolian 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 December 31, 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on Page II-1 of the Company's prospectus dated June 23, 2015, 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 December 31, 2014 as if the proposed initial public offering had taken place at December 31, 2014. 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 December 31, 2014, 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" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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.

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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 or the proposed acquisitions at December 31, 2014 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, 23 June 2015

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 Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section of this prospectus does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. 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.

TAXATION IN THE PRC

Taxation of Dividends

Individual Investors

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) (the "Individual Income Tax Law") promulgated on September 10, 1980, as amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007 and June 30, 2011, and the Rules for Implementation of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法實施條例》) (the "Implementation Rules of Individual Income Tax Law") promulgated on January 28, 1994, as amended on December 19, 2005, February 18, 2008 and July 19, 2011, the receipt of dividends by individuals is subject to an individual income tax of 20%.

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (《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 SAT on June 28, 2011, overseas resident individual shareholders of a domestic non-foreign-invested enterprise whose shares are listed in Hong Kong may be entitled to preferential tax treatments in accordance with applicable tax treaties between the countries in which they are tax resident and China as well as the tax arrangements between Mainland China and Hong Kong (Macau). Domestic non-foreign-invested enterprises whose shares are listed in Hong Kong generally may withhold individual income tax at the rate of 10% when distributing dividends with respect to such listed shares without prior application to the PRC tax authorities. Where the stipulated tax rates pursuant to applicable tax treaties and arrangements are lower than 10%, individual shareholders receiving dividends may be entitled to apply to the PRC tax authorities to obtain a refund of the excess of the amount withheld over the required payment upon approval from the competent tax authorities. Under PRC law, dividend income of individual shareholders who are residents of countries that have entered into tax treaties with the PRC stipulating tax rates of higher than 10% but lower than 20% is subject to tax at the applicable treaty rate, while dividend income of individual shareholders who are residents of countries that have not entered into taxation agreements with the PRC is subject to income tax at the rate of 20%. The company that pays dividends is required to withhold at the applicable tax rate (which may be higher than 10% if the company knows the identity of the relevant shareholders).

Enterprise

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (the "EIT Law") and the Rules for Implementation of Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) (the "Implementation Rules of EIT Law"), both of which became effective on January 1, 2008, non-resident enterprises which have not established organizations or premises in the PRC, or if established, the income derived is not actually associated with such organizations or premises, are subject to tax at a rate of 10% for dividend income originated from the PRC. The tax liability may be reduced pursuant to an applicable treaty for the avoidance of double taxation.

According to the Notice Regarding Matters on Withholding Enterprise Income tax on the Dividends Paid by PRC Resident Enterprises to Non-resident Enterprise Shareholders of H Shares (《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》) promulgated by the SAT, which became effective on November 6, 2008, PRC resident enterprises shall withhold enterprise income tax at a rate of 10% from dividends distributed to overseas non-resident enterprise shareholders for the year of 2008 and thereafter. The non-resident enterprise shareholders entitled to a reduced tax rate under tax treaties or arrangements may apply to the competent taxation authorities for refund of the excess amount withheld.

According to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) 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% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds 25% equity interest or more in such PRC company, such tax generally shall not exceed 5% of the gross amount of dividends payable by the PRC company.

Tax Treaties

Investors who are not residents of the PRC and reside in countries that have entered into treaties for the avoidance of double taxation with the PRC or reside in Hong Kong Special Administrative Region or Macau Special Administrative Region may be entitled to a reduction of tax on the dividends paid by PRC companies. The PRC has entered into arrangement for the avoidance of double taxation with Hong Kong Special Administrative Region and Macau Special Administrative Region, and has signed treaties for the avoidance of double taxation with a number of other countries, which include but are not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will 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.

Taxation of Capital Gains

Individual Investors

According to the Individual Income Tax Law and Implementation Rules of Individual Income Tax Law, gains derived by individuals from the transfer of PRC property, such as gains from sales of

shares in a PRC enterprise, are subject to individual income tax at a rate of 20%. Pursuant to the Notice concerning the Extension of Temporary Exemption on Individual Income Tax on the Income Derived from Transfers 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》) jointly promulgated by MOF and SAT on March 30, 1998, the temporary exemption on individual income tax on the gains derived from the transfer of shares of public companies was extended since January 1, 1997. Although it is not certain whether such exemption is applied to H Shares, to our knowledge, in practice the PRC tax authorities had not sought to collect tax on such gains from non-PRC individuals. The tax may be reduced or eliminated pursuant to an applicable tax treaty. On February 3, 2013, the State Council approved the Notice of Suggestions to Deepen the Reform of System of Income Distribution (《發展改革委等部門關於深化收入分配制度改革若干意見的通知》). The General Office of the State Council issued the Circular Concerning Allocation of Key Words to Deepen the Reform of Income Distribution (《關於深化收入分配制度改革重點工作分工的通知》) on February 8, 2013. According to these two documents, the PRC government intends to abolish the tax treatment exempting individuals from individual income tax on the dividends obtained from foreign invested enterprises, and the MOF and the SAT will be responsible for defining the details and formulating the relevant plan thereof. However, the MOF and the SAT have not yet promulgated any specific implementation rules.

Enterprise

According to the EIT Law and the Implementation Rules of EIT Law, non-resident enterprises which have not established organizations or premises in the PRC, or if established, the income derived is not actually associated with such organizations or premises, are subject to enterprise income tax of 10% on gain originated from the PRC, such as gains from sales of shares in a PRC enterprise. The tax may be reduced or eliminated pursuant to an applicable tax treaty.

Stamp Duty

Pursuant to the Provisional Regulations on Stamp Duty of the People's Republic of China (《中華人民共和國印花稅暫行條例》), which became effective on October 1, 1988, a stamp duty shall not be applicable to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

Estate Duty

No estate duty is imposed by the PRC Government.

Income Tax

According to the EIT Law, enterprises and other organizations which generate income within the PRC shall pay enterprise income tax at the rate of 25%.

Business Tax

Pursuant to the Provisional Regulations on Business Tax of the People's Republic of China (《中華人民共和國營業稅暫行條例》) (revised in 2008), as amended by the State Council on November 10, 2008 and became effective on January 1, 2009, business tax is imposed on units or individuals that provide labor services, transfer intangible assets or sell real estate in the PRC as specified in such regulation. Companies in financial and insurance industries shall be subject to business tax at a rate of 5%.

Foreign Exchange Control

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

According to the Regulation of Foreign Exchange of the People's Republic of China (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996, as amended on January 14, 1997 and August 1, 2008, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to the approval from the SAFE while capital account items are.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated by PBOC which took effect on July 1, 1996 abolished the remaining restrictions on foreign exchange in respect of current account items while retaining the restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies. Therefore, the RMB exchange rate was no longer pegged to the U.S. dollar only and the exchange rate system for Renminbi became more flexible. The PBOC will publish the closing price of foreign currencies such as the U.S. dollar against Renminbi in the interbank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for the trading of Renminbi on the following working day. Since January 4, 2006, PBOC has authorized China Foreign Exchange Trading Center to publish the middle price for the exchange of Renminbi to the U.S. dollar, Euro, Japanese yen and Hong Kong dollar at 9:15 am on each business day, which will be used as the middle prices of exchange rates for transactions in interbank spot foreign exchange market (including OTC and automatic price-matching transactions) and bank counter transactions.

The Decision of the State Council on Cancelling or Adjusting Approval items and other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) promulgated by the State Council on October 23, 2014 cancelled the approval on the capital settlement of overseas listed onshore enterprises for their funds raised through overseas listing.

According to the Notice Concerning Foreign Exchange Control of Overseas-listed Enterprises (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) issued by SAFE, which took effect on December 26, 2014, companies with foreign shares listed overseas shall, within 15 business days after the completion of the overseas listing, complete the foreign exchange registration of overseas-listed shares with the local SAFE branch.

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 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 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.

The 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 judgment do not constitute legally binding precedents, although they may be used for the purposes of judicial reference and guidance.

The People's Republic of China Constitution (《中華人民共和國憲法》) (the "Constitution"), 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 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 Constitution 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 the laws, administrative regulations and the 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. Interpretation of 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 governments of the respective provinces, autonomous regions and municipalities.

The PRC Judicial System

Pursuant to the Law of Organization of the People's Courts of the People's Republic of China (《中華人民共和國人民法院組織法》) passed on July 1, 1979 and amended on September 2, 1983, December 2, 1986 and October 31, 2006, the jurisdiction of the PRC shall be exercised by the special people's courts including local people's courts and military courts and the Supreme People's Court. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are divided into criminal, civil, and economic divisions as well as certain people's courts based on the natures of the region, population and cases. The intermediate and higher people's courts are divided into criminal, civil, and economic divisions as well as other divisions as necessary. The Supreme People's Court is the highest judicial organ of the PRC, which is divided into criminal, civil, and economic divisions as well as other necessary divisions.

The people's courts adopt a "second instance as final" appellate system in the trial of 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 the 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.

If the presidents of the people's courts find errors in the confirmed facts or the application of laws in respect of their judgments and rulings which have become legally effective, the case must be submitted to the judicial committee for settlement. If the Supreme People's Court or a people's court at a higher level finds errors in the judgments and rulings which have become legally effective in the local people's courts at a lower level, the case may be brought to trial by the Supreme People's Court or a retrial of the case may be conducted by the people's court at a lower level according to the

command of the people's court at a higher level. If the supreme people's procuratorate or the people's procuratorate at a higher level find errors in the judgments and rulings which have become legally effective in the people's procuratorate at a lower level, an appeal may be lodged in accordance with the trial and supervision procedures.

The Civil Procedure Law of the People's Republic of China (《中華人民共和國民事訴訟法》) adopted on April 9, 1991 and amended on October 28, 2007 and August 31, 2012 prescribes the jurisdiction, trial structure, participants, testimony, trial and execution procedures to be followed for conducting a civil action. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law.

A civil case is generally heard by a court located in the defendant's place of domicile. The parties to disputes involving contracts or other property rights may also, by written agreement and subject to the provisions of level jurisdiction and exclusive jurisdiction, select the people's courts with its locality with effective connection of the disputes, such as the defendant's place of domicile, the place of performance of the contract, the place of execution of the contract, the plaintiff's place of domicile or the place of the object of the action. Foreign individuals, stateless individuals and foreign enterprises and organizations shall have the same litigation rights and obligations as the citizens, legal persons and other organizations of the PRC when initiating actions or defending against litigations at the people's courts. Should the judicial court of a foreign country limit the civil litigation rights of the citizens, legal persons and other organizations of the PRC, the PRC courts may apply the same limitations to the citizens, enterprises and organizations of that foreign country. The foreign individual, stateless individual or foreign enterprise or organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of the litigation. In accordance with the international treaties in which the PRC is a signatory or a participant or the principle of reciprocity, the people's court and foreign court may request each other to serve legal documents on their behalf, conduct investigation and collect evidence and conduct other actions. The people's courts shall not enforce any request made by the foreign courts which will result in the violation of sovereignty, security or public interests of the PRC.

The Company Law, Special Regulations and Mandatory Provisions

The Company Law of the People's Republic of China (《中華人民共和國公司法》) (the "Company Law") was adopted by the Standing Committee of the NPC on December 29, 1993 and was amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively for four times. The latest revised Company Law came into effect on March 1, 2014. The Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《關於股份有限公司境外募集股份及上市的特別規定》) (the "Special Regulations") was promulgated on August 4, 1994 by the State Council. The Mandatory Provisions for the Articles of Association of Companies Listing Overseas (《到境外上市公司章程必備條款》) (the "Mandatory Provisions") was promulgated jointly by the CSRC and the State Commission for Restructuring on August 27, 1994. The Company Law, Special Regulations and Mandatory Provisions constitute the main regulatory framework for the joint stock limited companies listed overseas, and their major provisions are summarized as follows:

General

A "company" is a corporate legal person incorporated in accordance with the Company Law with independent legal person status and entitlements to such legal person properties and liability to the extent of its total assets.

Companies can be divided into limited liability companies and joint stock limited companies. The liability of shareholders of a limited liability company is limited to the amount of capital they contribute, while the liability of shareholders of a joint stock limited company is limited to the amount of shares they subscribe.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than two hundred promoters. At least half of the promoters must have residence within the PRC.

For joint stock limited companies incorporated by promotion, the entire registered capital as registered with the registration authorities of which is subscribed for by all of the promoters. Shares in the company shall not be issued to other persons unless shares subscribed by the promoters has been paid up. For joint stock limited companies incorporated by public subscription, the registered capital is the amount of its total paid-up capital as registered with the registration authorities.

If there are other provisions required by the laws, administrative regulations and decisions of the State Council regarding the minimum paid-up registered capital and the minimum registered capital of a joint stock limited company, such provisions shall prevail.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them by the articles of association, and make capital contributions according to the articles of association. Procedures relating to the transfer of title for nonmonetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall be liable for breach of contract in accordance with the covenants laid down in the promoters' agreement. After the promoters have fully recognized the capital contribution required by the articles of association, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, and other documents required by the law or administrative regulations.

Where joint stock limited companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the stipulated information pursuant to article 86 of the Company Law including the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities firms established according to laws and underwriting agreements in relation to which shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts according to the agreement, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to the relevant authorities.

After the subscription amounts for the share issuance have been paid in full, a capital verification institution established according to laws must be engaged to conduct capital verification and issue a report thereon. The promoters shall convene an inauguration meeting within 30 days from the date the subscription amounts have been fully paid up. The inauguration meeting shall be constituted by the presence of the promoters and subscribers. Where shares issued remain undersubscribed by the deadline stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter return the subscription amounts so paid up together with interest at bank rates payable for a deposit of an equivalent amount for the same term. The promoters shall give notice to each of the subscribers or make a public announcement regarding the date of the inaugural meeting no less than 15 days before the date of the meeting. The inauguration meeting shall be held only if the promoters and subscribers representing more than half of the total shares issued are present.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall submit relevant materials and apply to the registration authority for registration of the establishment of the company.

Upon the establishment of the joint stock limited company, in the event that only partial payment of contribution has been made by a promoter, the remainder shall be paid in full in accordance with the provisions of the articles of association, whereas other promoters shall bear joint and several liabilities. Where the actual value of the nonmonetary capital contribution for the establishment of the company is significantly lower than the carrying price stated in the articles of association, the promoter of such contribution shall make up the difference, whereas other promoters shall bear joint and several liabilities.

Promoter(s) of a joint stock limited company shall bear the following liabilities:

- where the company cannot be incorporated, they shall bear the joint and several liability for all the debts and expenses incurred in the act of incorporation;
- where the company cannot be incorporated, they shall bear the joint and several liability for refunding the subscription moneys paid by the subscribers, plus the bank deposit interest for the same period of time; and
- where the interests of the company are impaired due to the fault committed by the promoters in the process of the incorporation of the company, they shall bear the liability to pay compensation to the company.

Amendments to the Articles of Association

A company may amend its articles of association in accordance with the laws, administrative regulations and the articles of association. Any amendment to the articles of association involving any issue set out in the Mandatory Provisions shall become effective upon approval by the CSRC. If there is any change relating to the registration of the company, application shall be made for registration of the changes in accordance with the laws.

Share Capital

The promoter of a joint stock limited company may make capital contribution in cash or in kind assets, intellectual property rights or land use rights with monetary value and lawfully transferrable nonmonetary property after valuation, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made with nonmonetary assets, a valuation and verification of the asset contributed must be carried out without any overvaluation or undervaluation. Where the law or administrative regulations in place have any other provisions on valuation, such provisions shall prevail.

The issuance of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank *pari passu* with one another, and shares of the same class which issued in the same tranche shall be issued on the same conditions and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares. The share offering price may be equal to or greater than the par value of the share, but may not be less than the par value.

A joint stock limited company may issue registered or bearer share certificates. Approval from the CSRC shall be obtained for the purpose of public share offering overseas. 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. Foreign shares listed overseas may be issued in form of foreign depository receipts or other derivative means. Where a company issues foreign shares listed overseas that the total number of which falls below the total number of shares under the proposed offering, it may, upon approval of the CSRC, retain shares of not more than 15% of the total number of foreign share overseas listing under such proposed offering besides the amount of underwritten shares agreed with the underwriters. Issuance of the retained shares shall form a part of the offering. Shares issued to promoters and legal persons shall be registered under the names of such promoters and legal persons and shall not be registered under any other names or the names of its representatives.

Increase in Share Capital

When a company is issuing new shares, resolutions shall be passed by the shareholders' general meeting approving the class, number and issue price of the new shares, the dates of commencement and completion of the issue and the class and amount of new shares to be issued to existing shareholders. When a company launches a public issue of new shares with the approval of the CSRC, a new share offering prospectus and financial report must be published and a subscription form must be Prepared.

After the new share issuance of the company has been paid up, the change must be registered with the company registration authorities and an announcement must be made.

Reduction of Share Capital

A balance sheet and a property list shall be prepared for the purpose of the reduction of registered capital of a company.

The company shall inform its creditors of the reduction in capital within 10 days and make an announcement in relation to the reduction in the newspaper within 30 days after the resolution

regarding the reduction is made. The creditors of the company may require the company to pay its debts or provide guarantees for the debts within 30 days upon receiving such notice or, in the absence of such notice, within 45 day from the date of the relevant announcement.

The company shall register the change for capital reduction with the relevant company registration authority.

Repurchase of Shares

A company may not purchase its own shares other than for one of the following purposes:

- to reduce its registered capital;
- to merge with another company that holds its shares;
- to grant shares to its employees as incentives; and
- to purchase its own shares from its shareholders who are against the resolution regarding the merger or demerger with another company in a shareholders' general meeting.

Where the company purchases its own shares for the purposes of the first to third items above, it shall obtain approval at the shareholders' general meeting. Following the acquisition of its shares in accordance with the foregoing, such shares shall be canceled within ten days from the date of acquisition in the case of the first circumstance and transferred or canceled within six months in the case of the second and the fourth circumstances above.

Shares acquired by the company for the purpose of the third item under paragraph one of this section shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the profit after tax of the company, and the shares so acquired shall be transferred to the employees of the company within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other ways as required by the State Council.

Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. No changes of registration in the share register provided in the foregoing shall be effected during a period of twenty days prior to the convening of the shareholders' general meeting or five days prior to the benchmark date when the company decided to distribute dividend. Where the laws in place have any other provisions on the registration of changes in the share register of listed companies, such provisions shall Prevail.

The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder.

Shares held by a promoter may not be transferred within one year from the date of the establishment of a company. Shares of the company issued before the public offering of shares shall not be transferred within one year from the date on which the shares are listed and commenced trading on a stock exchange. Directors, supervisors and senior management of a company shall report to the company their shareholdings in the company and changes therein and shall not transfer more than 25% of the total number of shares they held in the company during their terms of office. The shares of the company held by them shall not be transferred within one year from the date on which the shares are listed. They shall not transfer the shares of the company held by them within six months from the date they leave the company. The articles of association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the directors, supervisors and senior management of the company.

Shareholders

A shareholder of a company is a person who lawfully holds shares in the company and whose name (title) is entered in the register of shareholders. A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him. Shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

The shareholders of ordinary shares of a company shall enjoy the following rights:

- the right to receive dividends and other distributions in proportion to their shareholdings;
- the right to attend or appoint a proxy to attend shareholders' general meetings and to exercise voting rights;
- the right to supervise the company's business operations, present proposals or raise queries;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to obtain relevant information in accordance with the articles of association;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of remaining assets of the company in proportion with the number of shares held; and
- other rights conferred by laws, administrative regulations and the articles of association.

The shareholders of ordinary shares of the Company shall assume the following obligations:

- to comply with the articles of association;
- to pay subscription money according to the number of shares subscribed and the method of subscription; and
- other obligations imposed by laws, administrative regulations and the articles of Association.

Shareholders of the company shall not abuse their shareholders' rights to damage the interests of the company or other shareholders, or to take advantage of the company's independent status or the limited liability of shareholders to damage the interests of the company's creditors.

Shareholders' General Meetings

A shareholders' general meeting of a joint stock limited company is formed by all shareholders. The shareholders' general meeting is the organ of authority of the company and shall exercise the following powers:

- to decide on the company's operational policies and investment plans;
- to elect or replace the directors and supervisors (who are not staff representatives) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the supervisory committee or supervisors;
- to examine and approve the proposed annual financial budget and final accounts of the company;
- to examine and approve the company's proposals for profit distribution and recovery of losses;
- to decide on any increase or reduction of registered capital of the company;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution, liquidation or change of nature of the company;
- to amend the articles of association; and
- other powers as provided for in the articles of association.

Shareholders' general meetings are 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:

- the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;
- the losses of the company which are not recovered reach one third of the total paid-in share capital of the company;
- when shareholders alone or in aggregate holding 10% or more of the total shares of the company request;
- whenever the board of directors deems necessary;
- when the supervisory committee so proposes; or
- other circumstances as provided for in the articles of associations.

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% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

To convene a shareholders' general meeting, a notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. Notice of the meeting in connection with the issuance of bearer's shares stating the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

Shareholders alone or in aggregate holding more than 3% of the total shares of the company may put forward a provisional proposal in writing to the board of directors 10 days prior to the shareholders' general meeting. The board of directors shall, within two days after receiving the new proposal, notify other shareholders thereof and submit such proposal to the shareholders' general meeting for consideration. The content of the proposal shall be within the scope of power of the shareholders' general meetings, including a clear subject and specific matters to be resolved. The shareholders' general meeting shall not decide on matters which are not within its scope of power.

Holders of bearer's share certificates who wish to attend the shareholders' general meeting shall deposit their share certificates with the company 5 days before the meeting, and such share certificates shall remain in the custody of the company until the close of the shareholders' general Meeting.

Shareholders present at a shareholders' general meeting shall have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of the amendments to the articles of association, addition or reduction of registered capital, merger, division, dissolution or change of nature of the company, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters.

The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. For the election of directors and supervisors at the shareholders' general meeting, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected and shareholders may consolidate their voting rights when casting a vote.

A shareholder may appoint proxy to attend the shareholders' general meeting and the proxy shall submit the form of proxy to the company and exercise the voting rights within the scope of authorization. Minutes shall be prepared in respect of matters considered at the shareholders' general

meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board of Directors

A joint stock limited company shall have a board of directors, which shall consist of five to 19 members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise.

The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if reelected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a reelected director takes office, if reelection is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall perform his duties.

The board of directors shall be accountable to the shareholders' general meeting and exercises the following powers:

- to convene the shareholders' general meetings and report on its work at the shareholders' general meetings;
- to implement the resolutions passed in the shareholders' general meetings;
- to decide on the business plans and investment proposals of the company;
- to formulate the proposals of the annual financial budget and final accounts of the company;
- to formulate the proposals for profit distribution and recovery of losses of the company;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution or change of nature of the company;
- to decide on the internal management structure of the company;
- to appoint or dismiss the company's general manager and appoint or dismiss the deputy general managers and financial officers of the company based on the nomination of the general manager and to decide on their remuneration;

- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

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 10 days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an interim board meeting.

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be adopted with approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors.

Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. Minutes shall be prepared in respect of matters considered at the board meeting and the directors attending the meeting shall sign to endorse such Minutes.

Directors shall be accountable to the resolutions of the board of directors. If a resolution of the board of directors violates the law, administrative regulations or the articles of association of the company, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Supervisory Committee

A joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, provided that the proportion of representatives of the company's staff shall not be less than one-third. The actual proportion shall be stipulated in the articles of association. Representatives of the company's staff and workers on the supervisory committee shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management may not act concurrently as supervisors.

The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if reelected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly reelected supervisor takes office, if reelection is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises the following powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolution;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of these acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;
- to make proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management pursuant to Article 151 of the Company Law; and
- other powers specified in the articles of association.

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 board of supervisors. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and the supervisors attending the meeting shall sign to endorse such minutes.

Senior Management

Senior management shall mean the manager, deputy manager(s), financial controller, board secretaries of a listed company and other personnel as stipulated in the articles of association.

A joint stock limited company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to supervise the production, operation and administration of the company and arrange for the implementation of board resolutions;

- to arrange for the implementation of the company's annual business and investment plans;
- to formulate plans for the establishment of the company's internal management structure;
- to formulate the basic administration system of the company;
- to formulate the company's internal rules;
- to recommend the appointment or dismissal of deputy managers and any financial controller;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors.

Other provisions of the articles of association concerning the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings.

Eligibility and Obligations of Directors, Supervisors and Senior Management

The following persons may not serve as a director, supervisor or senior management of a company:

- persons without civil capacity or with restricted civil capacity;
- 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;
- persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated 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;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; and
- persons who have a relatively large amount of debts due and outstanding.

The directors, supervisors and senior management shall comply with the laws, administrative regulations and the articles of association of the company and shall faithfully perform their due diligence obligations to 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:

- misappropriation of company funds;

- deposit of company funds into accounts under their own name or the name of other individuals;
- 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;
- 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;
- 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;
- accepting for their own benefit commissions from other parties dealing with the company;
- unauthorized divulgence of confidential information of the company; or
- other acts in violation of their duty of loyalty to the company.

Any director, supervisor or senior management who violates any laws, administrative regulations or the articles of association of the company during the course of performing his duties and causes losses to the company shall be liable to compensate for any loss caused to the company. Where a director or senior management causes harm violates any provisions of the laws, administrative regulations or the articles of association of the company which undermines the shareholders' interests, the shareholders shall be entitled to commence proceedings with the People's Court.

Where the attendance of a director, supervisor or senior management is requested by the shareholders' meeting or shareholders' general meeting, such director, supervisor or senior management shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management shall furnish with all truthfulness facts and information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without obstructing the discharge of duties by the supervisory committee or the Supervisors.

A company shall not directly, or through its subsidiary, provide loans to any director, supervisor or senior management and shall regularly disclose to shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

Finance and Accounting Systems and Profit Distribution

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each fiscal year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

A joint stock limited company shall deposit its financial statements at the company for inspection by the shareholders at least twenty days before the convening of an annual general meeting of shareholders. A joint stock limited company issuing its shares in public must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its profits for the company's statutory common reserve fund, except where the fund has reached over 50% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocating such profits to the statutory common reserve fund in accordance with the above provisions. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund.

After the joint stock limited company has made good on its losses and made allocations to its common reserve fund, the remaining after-tax profits shall be distributed in proportion to the number of shares held by the shareholders, except when the articles of association provide not to distribute in proportion to their shareholding. Profit distributed to shareholders by the shareholders' general meeting or the board of directors before losses has been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Company shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of a joint stock limited company on issue and other incomes required by the financial department of the State Council to be treated as the capital common reserve shall be accounted for as capital common reserve of the company. The common reserve shall be applied to make up the company's losses, expand the production and business operations of the company or increase the company's capital. Nonetheless, the capital common reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' meeting, the shareholders' general meeting or the board of directors in accordance with the articles of association. The accountant shall be allowed to make representations when the shareholders' meeting, the shareholders' general meeting or board of directors of the company is going to conduct a poll on the dismissal of the accountant. The company shall provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant engaged without any refusal, withholding and false information. The accountant's term of office shall commence from the end of the annual general meeting of the company and it shall expire on the end of the next annual general meeting of the company.

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.

Merger and Division

The merger of a company may be conducted by way of absorption or consolidation. 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.

Dissolution and Liquidation

A company shall be dissolved by reason of the following:

- the term of its operations set down in the company's articles of association has expired or other events of dissolution specified in the company's articles of association have occurred;
- the shareholders' meeting or the shareholders' general meeting has resolved to dissolve the company;
- the company is dissolved by reason of its merger or demerger;
- the business license is invalidated; the company is closed down, or is dissolved as ordered; or
- the company is dissolved by the People's Court in response to the request of shareholders with shareholding representing more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a source of significant losses for shareholders.

In the event of the first circumstance above, the company may carry on its existence by amending its articles of association. Where the company is dissolved in the first, second, fourth and fifth circumstances above, a liquidation committee shall be established and shall conduct liquidation within fifteen days after the occurrence of an event of dissolution. Members of the liquidation committee of a joint stock limited company shall be composed of its directors or the person approved by the shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court, requesting the court to appoint relevant personnel to form the liquidation committee. The People's Court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors or issue public notices;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the surplus assets of the company after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation committee shall notify the creditors within ten days after its establishment, and issue public notices in the newspapers within sixty days. A creditor shall lodge its claim with the liquidation committee within thirty days after receiving notification, or within forty-five days of the public notice if it did not receive any notification. A creditor shall state all matters relevant to its creditor rights in making its claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' general meeting or People's Court for endorsement. The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to shareholding proportion in the case of joint stock limited companies. The company shall continue to exist during the liquidation period, although it shall not engage in any operating activities that are not related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment is made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the People's Court for a declaration for bankruptcy according to laws. Following such declaration, the liquidation committee shall hand over the affairs of the liquidation to the People's Court. Upon completion of the liquidation, the liquidation committee shall prepare and submit a liquidation report at the shareholders' general meeting or to the People's Court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Securities Law and Regulations and Regulatory Regime

In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of relevant laws and regulations on securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities

affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities-related statistics and conducting research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and the functions of the Securities Commission was assumed by the CSRC.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《關於股份有限公司境內上市外資股的規定》). These regulations regulate the issue, subscription, trading of domestic listed foreign shares, the distribution of dividends and the disclosure of information.

On December 29, 1998, the NPCSC promulgated the Securities Law of the People's Republic of China (《中華人民共和國證券法》) (the "Securities Law") which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014, the Securities Law was amended and revised respectively, and the latest revision came into effect on August 31, 2014. The Securities Law is applicable to the issuance and trading of shares, company bonds and other securities designated by the State Council in the PRC according to laws, and contains provisions of the issuance and transaction of securities, acquisitions of listed companies, and the duties and responsibilities of stock exchanges, security companies and CSRC.

Arbitration Law

According to the Arbitration Law of the People's Republic of China (《中華人民共和國仲裁法》) which was approved by the NPCSC on August 31, 1994 and came into effect on September 1, 1995, any disputes over contracts and other interests among citizens, legal persons and other organizations with equal status may be settled by arbitration. Both parties shall reach an arbitration agreement voluntarily in order to settle the dispute through arbitration. The arbitration commission shall not accept any application for arbitration from a single party without arbitration agreement. The People's Court shall not accept filing of suit from a single party with arbitration agreement, except for invalid arbitration agreement. The award of arbitration shall be final and conclusive. Neither the arbitration commission nor the People's Court shall accept any application of arbitration or filing of suit in relation to the same dispute once the award had been made. If the award is revoked or refused execution by the People's Court, the parties may apply for arbitration in accordance with a new mutual arbitration agreement or file a suit at the People's Court.

Pursuant to Hong Kong Listing Rules and Mandatory Provisions, the articles of association of a PRC company listed in Hong Kong shall contain provisions in relation to arbitration. Disputes in respect of business affairs and rights between overseas listed foreign shareholders and the company, overseas listed foreign shareholders and the directors, supervisors or senior management of the company, and overseas listed foreign shareholders and other shareholders, shall be settled by arbitration. Applicant may determine to refer the arbitration to China International Economic and Trade Arbitration Commission according to its arbitration rules or Hong Kong International Arbitration Centre according to its securities arbitration rules. Once the applicant refers a dispute or claim to arbitration, the other party must submit to the arbitral body determined by the applicant. If the applicant determines to arbitrate at Hong Kong International Arbitration Centre, then either party may

apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of Hong Kong International Arbitration Centre.

According to the new Arbitration Rules of China International Economic and Trade Arbitration Commission (amended in 2014) (《中國國際經濟貿易仲裁委員會仲裁規則》(2014年修訂)) promulgated on November 4, 2014 and came into effect on January 1, 2015, the China International Economic and Trade Arbitration Commission shall deal with disputes over contractual or noncontractual transactions, including disputes in Hong Kong, in accordance with the agreement of the parties. The arbitration commission was established in Beijing and branches and centers were set up in Shenzhen, Shanghai, Tianjin and Chongqing.

In the 18th meeting of the 6th NPCSC on December 2, 1986, China agreed to enter into the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) signed on June 10, 1958 at the United Nations conference on international commercial arbitration. According to the New York Convention, any party shall recognize and enforce arbitral awards of other parties with certain reciprocity reservation. Upon entering into the convention, NPCSC stated that China only recognized and enforced arbitral awards from overseas on a mutual beneficial basis, and the New York Convention shall be applicable only to any dispute over contractual and noncontractual business laws under the laws of the PRC.

According to the Arrangement Concerning Mutual Enforcement of Arbitral Awards Between the Mainland and Hong Kong Special Administrative Region (《最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排》) which was promulgated by the Supreme People’s Court on January 24, 2000 and came into effect on February 1, 2000, the Courts in Hong Kong agree to enforce any awards made by the arbitral authorities in the PRC pursuant to the Arbitration Law of the People’s Republic of China (《中華人民共和國仲裁法》), while the People’s Courts in the PRC agree to enforce any awards made pursuant to the Arbitration Ordinance of Hong Kong in Hong Kong.

Regulation on Overseas Investments

According to the Measures on Administration of Overseas Investments (《境外投資管理辦法》) which was enacted by the Ministry of Commerce on September 6, 2014 and came into effect on October 6, 2014, the Ministry of Commerce and the provincial commerce department will implement filing and approval management respectively according to different overseas investment circumstances of each enterprise.

According to the Regulations on Administration on the Foreign Exchange of the Overseas Direct Investments of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) which was promulgated by SAFE on July 13, 2009 and came into effect on August 1, 2009, a PRC enterprise which obtained an approval for overseas investments shall register with the foreign exchange administrative authority for the foreign exchange used in such overseas investments.

According to the Measures on the Approval and Filing Management of Overseas Investment Projects (《境外投資項目核准和備案管理辦法》) which was promulgated by the NDRC on April 8, 2014 and amended on December 27, 2014, the State will implement approval and filing management for overseas investment projects respectively according to different circumstances.

Regulation on Anti-money Laundering

The Anti-money Laundering Law of the People's Republic of China (《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 (amended in 2006) (《金融機構反洗錢規定》(2006年修訂)) 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 People's Bank of China, 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 People's Bank of China 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 Center electronically after identifying large-sum transactions and doubtful transactions.

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 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 promotion or subscription.

(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 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 authorized 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 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 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 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 RMB50 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, capital contributions may be in the form of money or non-monetary assets (other than assets not entitled to be used for capital contributions under relevant laws and regulations). For non-monetary assets to be used for 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 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 Shareholders' disposal of shares, as illustrated by the undertakings given by our Company and our Controlling Shareholders to the 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 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, within 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. 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 irremediable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in 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 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 minority shareholders

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 about the matters proposed to be considered, date and place of the meeting 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. When allocating the profits after tax of related accounting year, the lower profits after tax of the foresaid two types of financial statements shall prevail.

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 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, a 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 a common law concept of 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 provides, 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.

Listing Rules

The 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 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 Stock Exchange is required to appoint a compliance advisor acceptable to the 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 Listing Rules and all other applicable laws, regulations, rules, codes and guidelines.

If the 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 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 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 Stock Exchange and must notify the 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 Stock Exchange, the 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 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 Stock Exchange in accordance with the provisions of the 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 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 Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the 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 Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(ix) Further Issue of Securities

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 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 Listing Rules) issued by the 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 Supervisor or proposed Supervisor 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 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 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 the Listing Rules to be sent by our Company to the 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 Listing Rules, then the 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 Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the 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 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.

PRC LEGAL MATTERS

Our legal advisor on PRC law, Jingtian & Gongcheng, has sent to us a legal opinion confirming that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This legal opinion is available for inspection as referred to in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix VII to this prospectus.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Scope and Objectives of Business

The business objectives of the Company: the Company is committed to offering the shareholders of the Company with considerable return, providing our customers with quality services, and contributing to the sound development of the securities markets in the PRC, through lawful and well-regulated operation in accordance with 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 other rules and regulations.

The business scope of the Company is: authorized operating items: securities brokerage, securities investment consultation, financial advisory in relation to securities trading and securities investment activities, proprietary securities trading, securities asset management, the sales of securities investment funds on commission basis, margin financing and securities lending business, provision of intermediary business for futures companies, and the sales of financial products on commission basis. There is no general operating item. (The business scope above are subject to special approvals where required.)

Shares

Shares and Registered Capital

The Company shall create ordinary shares at all times. If required, upon approval by the authorities delegated by the State Council, the Company may create shares of other classes.

The Company shall issue Shares under the principles of openness, fairness and equity, and shares of the same class shall carry same rights, and rank *pari passu* over dividends or any forms of distribution. Each of the shares of the same class shall carry the same rights, and shall be issued under the same conditions and at the same price in each issuance, and the same price shall be paid for each of the shares subscribed for by any entity or individual.

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.

Upon approval by the securities regulatory authorities in China, the Company may issue its shares to both domestic investors and overseas investors.

Increase and Reduction of Capital and Repurchase of Shares

The Company may, based on its requirements for operation and development of the Company and in accordance with the relevant provisions of the Articles of Association, having obtained the approval of the securities regulatory authorities in China, increase its registered capital. The Company may increase its capital in any of the following manners :

- (i) offer of new shares to investors not particularly designated;
- (ii) private placement of shares;
- (iii) right issue of new shares to existing shareholders;
- (iv) bonus issue of new shares to existing shareholders;
- (v) transfer of capital reserve fund into capital; and
- (vi) any other way permitted by the laws, administrative regulations and the relevant regulatory authorities.

The Company shall prepare a balance sheet and a list of property inventory when reducing its registered capital. The Company shall notify its creditors within ten days and shall publish a notice in newspapers at least 3 times within 30 days after the passing of resolution approving the reduction of capital. Creditors shall, within 30 days after receiving the notice or 45 days after the first publication of the notice (for those who have not received the notification), have a right to require the Company to settle its debts or to provide guarantees for their settlement.

The Company may repurchase its shares, subject to the procedures of the Articles of Association and upon approval by the competent authorities of the State under the following circumstances:

- (i) to reduce the registered capital of the Company through cancelling shares;
- (ii) to merge with other companies holding shares of the Company;
- (iii) to grant shares to employees of the Company as incentives;
- (iv) to acquire shares held by dissident shareholders (if so requested) who vote against resolution proposed in shareholders' general meeting on the merger or division of the Company ;
- (v) the share price of the Company being lower than the net asset per share; and
- (vi) other circumstances as permitted by laws and administrative regulations.

The Company shall not engage in the trading of its shares save for the circumstances specified above.

The Company may repurchase its shares in any of the following manners upon approval by relevant competent authorities of the State:

- (i) an offer to repurchase shares made to all shareholders in equal proportions;
- (ii) to repurchase through open transaction in the stock exchanges;
- (iii) to repurchase through over-the-counter agreement; and
- (iv) other means approved by the securities regulatory authorities in the PRC.

Shares repurchased in accordance with the laws by the Company shall be canceled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original company registration authority for registration of the change of its registered share capital.

Transfer of Shares

Save as otherwise specified by laws, administrative regulations, department rules and relevant requirements of the securities regulatory authorities in the place where the Company's shares are listed, the shares of the Company may be transferred freely without any lien being attached. Transfer of overseas foreign shares listed in Hong Kong shall be registered by the share registrar in Hong Kong entrusted by the Company.

The Company shall not accept any pledge of its shares.

Promoter shares of the Company 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 management of the Company shall notify the Company of their shareholdings in the Company and changes thereof, and shall not transfer more than 25% of their shares per annum during their terms of office, save and except changes in shareholdings caused by judicial enforcement, inheritance, bequest and legal division of assets. The aforesaid persons shall not transfer the shares of the Company held by them within six months from the date of their resignation.

Where any director, supervisor, senior management of the Company and shareholder holding 5% or above of the Company's shares in issue sell his/her shares within a period six months after their purchase, or repurchase shares in the Company within a period of six months after their disposal, the gains so earned shall belong to the Company. The Board of Directors of the Company shall demand such gains for the benefit of the Company. However, the six-month restriction shall not apply for a securities company holds 5% or more of the Company's shares as a result of its underwriting of the untaken shares in an offer.

All paid-up overseas listed foreign shares listed in Hong Kong may be transferred freely in accordance with the Articles of Association. However, the Board may refuse to recognize any instrument of transfer without giving any reasons unless the following conditions are satisfied:

- (i) instrument of transfer and any other documents related to the title of any Shares or may affect the title of any Shares shall be registered, and made payment to the Company for such registration according to the expenses stipulated by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
- (ii) the instrument of transfer relates to the overseas listed foreign shares listed in Hong Kong;
- (iii) the stamp duty for the instrument of transfer has been paid;
- (iv) the relevant share certificates and evidence reasonably required by the Board showing that the transferor has the right to transfer such shares shall be provided;
- (v) if the stock is to be transferred to joint holders, the number of the joint holders shall not exceed four; and
- (vi) the relevant shares of the Company are free from all liens.

If the Company refuse to register the transfer of any share, it shall the Company shall notify the transferor and transferee of the refusal within two months from the date of the application for registration of transfer.

Financial Assistance for Purchase of Company's Shares

The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or is proposing to acquire shares in the Company. The aforementioned person shall include the person who has direct or indirect obligations in the purchase of shares of the Company. The Company or its subsidiaries shall not, at any time, provide any form of financial assistance to the Obligor for the purposes of reducing or discharging the obligations assumed by such person. This Article shall not apply to the circumstances set out below:

- (i) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of which is not for the purchase of shares in the Company, or the giving of the financial assistance is an incidental part of a master plan of the Company;

- (ii) the lawful distribution of the Company's assets as dividend;
- (iii) the distribution of dividends in the form of shares;
- (iv) a reduction of registered capital, a repurchase of shares of the Company or reorganization of the shareholding structure of the Company in accordance with the Articles of Association;
- (v) the provision of loans by the Company within its scope of business and in the ordinary course of its business, where the provision of loans falls within part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits); and
- (vi) contributions made by the Company to the employee share ownership scheme (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

Share Certificates and Register of Shareholders

The share certificates of the Company shall be in registered form. The share certificates of the Company shall contain the following particulars:

- (i) the name of the Company;
- (ii) the date of incorporation of the Company;
- (iii) the class and par value of the shares and the number of shares that each share certificate represents;
- (iv) the serial number of the share certificate; and
- (v) any other matters needed to be specified as required by the Company Law and the securities regulatory authorities in the place where the Company's Shares are listed.

The Company may issue overseas listed foreign shares in form of foreign depository receipts or other derivative means of shares in accordance with the laws and the practice of registration and depository of securities in the listing place.

The Company shall establish a register of shareholders to record the following particulars of its shareholders:

- (i) the name, addresses (domicile), occupation or nature of each shareholder;
- (ii) the class and number of shares held by each shareholder;
- (iii) the amount paid or payable for the shares held by each shareholder;
- (iv) serial number of share certificate held by each shareholder;
- (v) the date on which each shareholder is registered as a shareholder; and
- (vi) the date on which each shareholder ceases to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shares in the Company.

The Company may, in accordance with the understanding or agreements made between the securities regulatory authorities in China and overseas securities regulatory authorities, maintain the register of shareholders of overseas listed foreign shares in any place outside China and appoint an overseas agent to manage such register of shareholders. Such original register of shareholders of overseas listed foreign shares listed in Hong Kong shall be kept in Hong Kong. The Company shall maintain a copy of the register of overseas shareholders at the domicile of the Company. The appointed overseas agent shall ensure the consistency between the original and the duplicate register of overseas shareholders at all times. If there is any discrepancy between the original and the duplicate register of overseas shareholders, the original register of shareholders shall prevail.

No transfer of share shall be registered within 30 days prior to the date of shareholders' general meeting or within 5 days before the record date set by the Company for the purpose of distribution of dividends.

Any person who objects to the register of shareholders and requests to have his name entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

Any registered shareholder or any person who claims to have his/her name entered into the register of shareholders in respect of shares in the Company may apply to the Company for a new share certificate for replacement in respect of such shares (the "Relevant Shares"), in the event that his/her share certificate (the "Original Share Certificate") has been lost.

Shareholders and General Meeting

Shareholders

A Shareholder of the Company is a person who lawfully holds shares of the Company and has his/her name recorded in the register of shareholders.

The shareholders shall enjoy the relevant rights and assume the relevant obligations in accordance with the class and number of shares he/she holds. Shareholders holding the same class of shares shall enjoy the same rights and assume 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:

- (i) the Company shall not register more than four persons as the joint holders of any shares;
- (ii) all joint holders of any shares shall assume the several and joint liability to pay all the payables related to the shares;
- (iii) in the event that one of the joint holders deceased, the surviving joint holders shall be deemed as the holders of the relevant shares. However, the Board may request the provision of death certificate, which it thinks fit, for the purpose of amending the register of shareholders; and
- (iv) in respect of the joint holders of any shares, only the joint holder whose name stands first on the register of shareholders shall be entitled to receive the certificate of relevant shares and notice of the Company, to attend the shareholders' general meeting or to exercise the voting rights of the relevant shares. Any notice so served shall be deemed as having served on all the joint holders of the relevant shares.

The holders of ordinary share of the Company shall be entitled to the following rights:

- (i) to receive distribution of dividends and other forms of benefits in proportion to the number of shares held;
- (ii) to request, convene, hold, attend or appoint a shareholder proxy to attend the shareholders' general meeting and exercise voting rights at the shareholders' general meeting according to the provisions of the laws;
- (iii) to supervise and manage the operations of our Company, and to submit proposals or inquiries;
- (iv) to transfer, make a gift or charge of the shares held in accordance with the laws, administrative regulations and the requirements of the Articles of Association;
- (v) to obtain relevant information in accordance with the Articles of Association, including:
 - a. to receive the Articles of Association , subject to the payment of production cost; and
 - b. the right to inspect and copy, subject to payment of a reasonable charge: all or any part of the register of shareholders; personal particulars of each of the directors, supervisors, president and other senior management of the Company;
- (vi) to participate in the distribution of the remaining assets of our Company in proportion to the number of shares held in the event of the termination or liquidation of the Company;
- (vii) the right to request the Company to repurchase its shares so long as the shareholder dissents the resolutions of the shareholders' general meeting approving a merger or division of the Company; and
- (viii) any other rights conferred by laws, administrative regulations and the Articles of Association.

Any shareholder shall notify the Company in advance and go through the review and approval process with the relevant securities regulatory authorities under the State Council to effect the same, in the event that such shareholder will hold 5% or more registered capital in the Company through subscription for or acquisition of the Company's shares or the equity in any other shareholder of the Company or otherwise.

In the event that any resolution of the shareholders' general meeting or the Board of Directors of the Company violates any applicable law or administrative regulation, the shareholders shall have the right to request the People's Court to invalidate the resolution. The provision for disputes settlement in the Articles of Association shall be applicable to disputes involving holders of foreign shares. In the event that any convening procedure, voting method or any resolution of the shareholders' general meeting or of any Board meeting is found in violation of applicable laws, administrative regulations or the Articles of Association, the shareholders may request the People's Court to invalidate the resolution thereof within 60 days from the date on which such resolution is resolved. In the event of any loss caused to the Company as a result of violation of applicable laws, administrative regulations or the Articles of Association by the directors or senior management when performing their duties, any of the shareholders who holds 1% or more of the shares individually or jointly for no less than 180 consecutive days shall have the right to request the Supervisory Committee in writing to initiate litigation before the People's Court. In the event of any loss caused to the Company as a result

of violation of applicable laws, administrative regulations or the Articles of Association by the Supervisory Committee when performing its duties, any of the shareholders may request the Board of Directors in writing to initiate litigation before the People's Court. In the event that the Supervisory Committee or the Board of Directors dismisses the written request of any of the shareholders as specified in the preceding article, or withholds from instituting litigation within 30 days of the receipt of the request, or that the failure to institute litigation immediately may otherwise cause irreparable damage to the interest of the Company in an urgent circumstance, such abovementioned shareholder(s) shall have the right to initiate litigation before the People's Court in the name(s) of such shareholder(s) in the interest of the Company. In the event of any infringement by a third party to the Company's legitimate rights and interest, resulting in losses to the Company, such abovementioned shareholders may initiate litigation before the People's Court in accordance with the preceding requirements. The provision for disputes settlement in the Articles of Association shall be applicable to disputes involving holders of foreign shares.

The holders of ordinary share of the Company shall have the following obligations:

- (i) to abide by laws, administrative regulations and the Articles of Association;
- (ii) to make the payment in respect of the shares subscribed for and the method of subscription;
- (iii) not claim the share capital in respect of its shares, unless otherwise specified by the laws or regulations;
- (iv) not to abuse shareholder's right to the detriment of the interests of the Company or other shareholders; not to abuse the independent status of legal person or shareholder's limited liability to the detriment of the interests of the creditors of the Company; Shareholders of the Company who abuse their rights as shareholders and cause losses to the Company or other shareholders shall be liable for compensation under the laws. Shareholders of the Company who abuse the Company's independent status of legal person and the shareholder's limited liability to evade debts and cause material damage to the interests of its creditors shall be jointly and severally liable for the Company's debts.
- (v) to assume other obligations imposed by laws, administrative regulations and the Articles of Association.

Where a shareholder holding 5% or more voting shares of the Company pledges any shares in his/her possessions, he/she shall report to the Company in writing on the day of effectiveness of such pledge of shares.

The controlling shareholders and the actual controller of the Company shall not take advantage of their association relationship to harm the interest of the Company. Any damage caused to the Company accordingly shall be indemnified by such controlling shareholder and/or the actual controller of the Company.

General Rules of General Meeting

The general meeting shall be the authority of power of the Company and shall exercise the following functions and powers in accordance with the laws:

- (i) to determine the operating policies and investment plans of the Company;

- (ii) to elect and change any of the directors, and to fix the remunerations of the directors;
- (iii) to elect and change supervisors who are not employees' representatives, and to fix the remunerations of such supervisors;
- (iv) to consider and approve the reports of the Board;
- (v) to consider and approve the reports of the Supervisory Committee;
- (vi) to consider and approve the proposed annual financial budgets and final accounts of the Company;
- (vii) to consider and approve the profit distribution plans and plans of deficit coverage of the Company;
- (viii) to resolve on increase or reduction of the registered capital of the Company;
- (ix) to resolve on matters such as merger, division, transformation, dissolution or liquidation of the Company;
- (x) to resolve on issuance of bonds of the Company;
- (xi) to resolve on the appointment, removal or non-reappointment of any accounting firm;
- (xii) to amend the Articles of Association;
- (xiii) to consider and approve the changes in the use of proceeds from share offering;
- (xiv) to consider and approve proposals submitted by the Supervisory Committee or shareholders in compliance with the requirements of the Articles of Association;
- (xv) to consider matters relating to the Company's purchase or disposal of major assets within one year with the transaction amount exceeding 30% of the latest audited total assets of the Company;
- (xvi) to consider and approve the transactions required to be considered by general meeting in accordance with the Listing Rules of the Stock Exchange;
- (xvii) to consider and approve any external guarantee set out in Article 8.03 of the Articles of Association;
- (xviii) to consider any equity incentive scheme;
- (xix) to consider and approve any shareholding schemes of directors, supervisors, senior management or employees of the Company;
- (xx) to consider and approve other matters that shall be approved by the shareholders' general meeting as stipulated by laws, administrative regulations, regulations and listing rules of the stock exchange in the listing place of the Company as well as the Articles of Association.

Any resolution passed at the general meeting shall come into effect upon the approval of the securities regulatory authorities in China; any matter involved in changes in the registration of the Company shall legally go through the registration formalities to alter the registration particulars.

The external guarantees to be considered and approved by the general meeting is subject to approval of the Board before presenting to the general meeting for approval, including but not limited to the following circumstances:

- (i) provision of any external guarantee by the Company or its holdings subsidiaries, the total amount of which exceeds 50% of the latest audited net assets of the Company;
- (ii) provision of guarantee to anyone whose liability-asset ratio exceeds 70%;
- (iii) provision of a single guarantee whose amount exceeds 10% of the latest audited net assets of the Company;
- (iv) provision of guarantee to the shareholder, the actual controller or their related parties;
- (v) provision of any external guarantee by the Company, the total amount of which amounts or exceeds 30% of the latest audited total assets of the Company;
- (vi) any other guarantee which shall be considered by the general meeting as stipulated by the listing rules of the stock exchange where the shares of the Company are listed.

General meetings are classified into annual general meetings and extraordinary general meetings and convened by the Board. The annual general meeting shall be held once every year within six months after the end of the previous financial 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:

- (i) 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;
- (ii) the unrecovered losses of the Company amount to one third of the total amount of its share capital;
- (iii) shareholders holding more than 10% (inclusive 10%, and excluding voting proxy) of the Company's voting shares request(s) in writing the convening of an extraordinary general meeting;
- (iv) the Board consider it necessary or the Supervisory Committee proposes to convene such meeting;
- (v) independent non-executive directors propose to convene such meeting with the consent of more than half of all independent non-executive directors; and
- (vi) other circumstances stipulated by the laws, administrative regulations, department rules or the Articles of Association.

Convening and Notice of General Meetings

Independent non-executive directors shall be entitled to propose to the Board to convene an extraordinary general meeting. If any independent non-executive director proposes to the Board to convene an extraordinary general meeting, he/she shall put forward its proposal in writing. Regarding the proposal requesting to convene an extraordinary general meeting by the independent non-executive directors, the Board shall, pursuant to the relevant laws, administrative regulations and the Articles of Association, give a written reply stating its consent or reject for the convening of the extraordinary

general meeting within ten days after receiving the proposal. If the Board agrees to convene the extraordinary general meeting, a notice for convening such meeting shall be issued within five days after the resolution is made by the Board. If the Board refuses to convene an extraordinary general meeting, an explanation and relevant announcement shall be made.

The Supervisory Committee shall have the right to propose to the Board to convene an extraordinary general meeting, and such proposal shall be submitted in writing. The Board shall, pursuant to the relevant laws, administrative regulations and the Articles of Association, give a written reply stating its agreement or disagreement to the convening of the extraordinary general meeting within ten days after receiving the proposal. If the Board agrees to convene the extraordinary general meeting, a notice for convening such meeting shall be issued within five days after the resolution is made by the Board and any changes to the original proposal contained in the notice shall be subject to the approval of the Supervisory Committee. If the Board does not agree to convene the extraordinary general meeting or fails to give any reply within ten days after receiving the proposal, it shall be deemed as unable to perform or failing to perform the duty of convening the general meeting, and the Supervisory Committee may convene and preside over the meeting by itself.

Shareholder(s) severally or jointly holding more than 10% shares of the Company shall have the right to request the Board to convene an extraordinary general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to the relevant laws, administrative regulations and the Articles of Association, give a written reply stating its consent or reject for the convening of the extraordinary general meeting within ten days after receiving 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 any reply within ten days after receiving the proposal, shareholder(s) severally or jointly holding more than 10% 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 five days after receiving 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 stipulated term, 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% 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 the relevant documents shall be filed with the local office of the CSRC and the stock exchange in the place where the Company is located. The shareholding proportion of the convening shareholders prior to announcement of the resolution of the general meeting shall not be less than 10% . The convening shareholders shall, when issuing the notice of general meeting and announcement on the resolution of the general meeting, submit relevant evidential documents to the local office of the CSRC and the stock exchange in the place where the Company is registered.

Where the Company convenes a general meeting, a written notice shall be given to all shareholders whose name appear in the register of shareholders 45 days before the meeting is held, specifying the matters to be considered at and the date and venue of the meeting. Any shareholder who intends to attend the meeting shall deliver a written reply slip to inform the Company of his/her intention to attend at least 20 days prior to the meeting. Where the number of voting shares represented by shareholders who intend to attend the meeting is more than half of the total number of voting shares of the Company, the Company may convene the general meeting. Otherwise, the Company shall, within five days, notify shareholders again of the matters to be considered at, and the date and venue for, the meeting in the form of public announcements. The Company may then convene the general meeting after such announcement has been made.

The interval between the equity registration date of domestic shareholders and the date of the general meeting shall not exceed seven working days. The equity registration date shall not be changed once confirmed. When 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 withdrawn 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.

Proposals of General Meetings

Where the Company convenes a general meeting, the Board, the Supervisory Committee, and shareholder(s) severally or jointly holding more than 3% shares of the Company may make proposals to the Company, and the Company shall place the proposal on the agenda for the said meeting and submit the proposal for consideration at a general meeting if the said proposal falls within the functions and powers of general meetings. Shareholder(s) severally or jointly holding more than 3% shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall issue a supplementary notice of the general meeting to give details of the provisional proposals within two days after the receipt thereof, and publish the contents of provisional proposals. Save as specified in the preceding paragraph, the convener shall not change the proposal set out in the notice of the general meeting or add any new proposal after the said notice is served.

Convening of General Meetings

All shareholders in the register of shareholders or proxies thereof on the equity registration date shall be entitled to attend the general meeting and exercise their voting rights according to the relevant laws, regulations and the Articles of Association. Shareholders may attend and vote at the general meeting in person or by proxy.

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/her proxies to attend and vote at the meeting on his/her behalf. The proxy(ies) so appointed may exercise the following rights as granted by the said shareholder:

- (i) to exercise the said shareholder's right to speak at the general meeting;
- (ii) to severally or jointly request to vote by ballot; and

- (iii) 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/her proxy duly authorized 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 authorized.

All directors, supervisors and secretary to the Board shall attend general meetings of the Company, and the president and other senior management shall also be present at the meetings.

The chairman shall preside over and act as chairman of the general meeting. If the chairman is unable or fails to perform the duty thereof, a director shall be elected by more than half of all 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 is unable or fails to perform 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.

The Company shall formulate rules of procedure for general meetings to specify in details the convening and voting procedures of general meetings. The rules of procedure of general meetings shall be annexed to the Articles of Association upon formulated by the Board and approved at the general meeting.

At the annual general meeting, the Board and the Supervisory Committee shall report their respective work in the preceding year. Each independent non-executive director shall also make his/her work report.

Directors, supervisors and senior management shall answer or explain inquiries and suggestions made by shareholders at the general meeting.

Resolutions of a general meeting shall be divided into ordinary resolutions and special resolutions. Ordinary resolutions shall be passed by affirmative 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 affirmative votes representing more than two thirds of voting rights held by shareholders (including proxies thereof) attending the general meeting. The following matters shall be approved by special resolutions at a general meeting:

- (i) increase or reduction in the registered capital of the Company;
- (ii) issuance of bonds of the Company;
- (iii) merger, division, transformation, dissolution or liquidation of the Company;
- (iv) amendments to the Articles of Association;
- (v) repurchase of shares of the Company;
- (vi) purchase or disposal of major assets by the Company in 12 consecutive months with the total amount or transaction amount reaching 30% of the latest audited total assets of the Company;

- (vii) equity incentive scheme of the Company;
- (viii) issuance of shares of any class, warrants and other similar securities;
- (ix) provision of guarantee whose cumulative amount in 12 consecutive months exceeds 30% of the latest audited total assets of the Company; and
- (x) other matters specified by the listing rules, of the stock exchange in the place where the Company's shares are listed, the Articles of Association and confirmed by an ordinary resolution at a general meeting that is considered to be significant to the Company and accordingly shall be approved by special resolutions.

In reviewing and considering matters in relation to connected transactions at a general meeting, the resolutions shall be adopted with more than half of voting rights held by the non-connected shareholders present in the general meeting. However, in the event of such connected transactions matters involving with matters that need to adopted with special resolutions at a general meeting, such resolutions shall be adopted with more than two thirds of voting rights held by the non-connected shareholders present in the meeting.

When voting at the general meeting, shareholders (including their proxies) shall exercise their voting rights representing by the number of voting shares they represent. Each share shall have one vote. Shares held by the Company do not carry any voting rights and shall not be counted in the total number of voting shares represented by shareholders present at a general meeting.

If any shareholder of the Company severally holds or jointly holds with any related party more than an aggregate of 50% of the equity interest of the Company, directors or supervisors shall be elected by using cumulative voting.

In addition to cumulative voting, 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 general meeting shall have minutes and be kept by the secretary to the Board. The directors, the supervisors, the secretary to the Board, the convener or their proxies, and the chairman of the meeting shall sign on the minutes of the meeting. The minutes of meeting shall be legally kept together with the attendance register of the attending shareholders, the power of attorney of the proxies, and valid documentation regarding voting via the Internet or other means.

Special Voting Procedures for Class Shareholders

In the event that the Company issues different classes of shares, holders of different classes of shares shall be class shareholders. In addition to holders of other classes of shares, holders of domestic shares and overseas-listed foreign shares are deemed to be shareholders of different classes.

Any variation or abrogation of the rights of any class of shareholders proposed by the Company 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 variation or abrogation of the rights of shareholders of a certain class:

- (i) to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of another class having the same or more voting rights, distribution rights or other privileges;
- (ii) to convert all or part of the shares of such class into shares of another class or to convert all or part of the shares of another class into shares of that class or to grant the relevant conversion rights;
- (iii) to cancel or reduce the entitlement and rights to receive and retain dividends attributable to shares of that class;
- (iv) to reduce or cancel the priority of the shares of that class to receive dividends or distributions of assets in a liquidation of the Company;
- (v) to add, cancel or reduce share conversion rights, options, voting rights, rights to transfer, pre-emptive placing rights, or rights to acquire securities of the Company attached to the shares of that class;
- (vi) to cancel or reduce rights to receive sums payable by the Company in a particular currency attached to the shares of that class;
- (vii) to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;
- (viii) to restrict the transfer or ownership of the shares of that class or to impose additional restrictions;
- (ix) to issue rights to subscribe for, or to convert into, shares of that class or another class;
- (x) to increase the rights and privileges of the shares of another class;
- (xi) to restructure the Company in such a way as to cause shareholders of different classes to bear liabilities disproportionately during the restructuring; and
- (xii) to amend or cancel provisions in the Articles of Association.

Where issues specified in (ii) to (viii), (xi) to (xii) 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.

Special voting procedures for class shareholders shall not apply in the following circumstances:

- (i) 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% of each of its existing issued and outstanding domestic shares and overseas-listed foreign shares in every 12 months;
- (ii) 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 authorities in China; or

- (iii) with approval of the securities regulatory authorities in China, the holders of domestic shares of the Company can transfer their shares to overseas investors for listing and trading in an overseas stock exchange.

The quorum required to convene some class meeting (excluding adjourned meeting) which intends to vary or abrogate the rights of any class of shareholders must be holders who hold at least one third of the total issued shares of that class. Resolutions of a class meeting shall be passed by affirmative votes representing more than two-thirds of the voting rights of shareholders of that class presented at the relevant meeting who are entitled to vote thereat. If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; otherwise, the Company shall within five (5) days give the shareholders further notice of the matters to be considered and the date and place of the class meeting by way of public announcement. The Company may then hold the class meeting after such further notice has been given by way of public announcement.

DIRECTORS AND THE BOARD

Directors

Directors of the Company shall be elected at general meetings. A director shall serve a term of three years and is eligible for re-election upon expiry of the said term. Directors of the Company shall before assuming office have their post-holding qualifications approved by securities regulatory authorities. The president or other senior management may concurrently serve as a director, provided that the aggregate number of the directors who concurrently serve as president or senior management shall not be more than half of the directors of the Company.

The term of office of a director shall start from the date on which the said director assumes office until 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 the laws, administrative regulations, department rules and the Articles of Association until a new director is elected. Directors may resign before the expiry of their tenure. They shall submit a written resignation to the Board. Any director who has been absent from two consecutive Board meetings and failed to designate other directors as proxies shall be regarded as having failed to fulfill his/her duty. The Board may propose to the general meeting to dismiss and replace such director.

Directors shall comply with the laws, administrative regulations and the Articles of Association, and shall faithfully perform the following obligations to the Company:

- (i) not to abuse their official powers to accept bribes or other illegal income, and not to misappropriate the properties of the Company;
- (ii) not to embezzle monies of the Company or customers;
- (iii) not to deposit any assets or money of the Company in any accounts under their own names or in the names of other persons;
- (iv) not to lend monies of the Company or any customer to other persons or provide guarantee for any debt of the Company, any shareholder of the Company, or any other institution or individual with the property of the Company or any customer counter to the Articles of Association or without the consent of the general meeting or the Board;
- (v) not to conclude any contract or conduct any transaction with the Company in violation of the Articles of Association or without approval of the general meeting;

- (vi) 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 without approval of the general meeting;
- (vii) not to accept commissions in relation to transactions between any third party and the Company;
- (viii) not to disclose any secret of the Company without authorization;
- (ix) not to use their connections to damage the interests of the Company;
- (x) not to seek gains for themselves or others by taking advantage of inside information; and
- (xi) to fulfill other obligations of honesty stipulated by the laws, administrative regulations, department rules and the Articles of Association.

The directors shall diligently perform their following obligations:

- (i) to exercise the rights conferred by the Company with due discretion, care and diligence to ensure the business operations of the Company comply with the national laws, administrative regulations and various requirements of economic policies of China, not beyond the business scope specified in the business license of the Company;
- (ii) to treat all shareholders impartially;
- (iii) to carefully read the relevant business and financial reports of the Company and keep informed of the operation and management conditions of the Company;
- (iv) to report regularly to the Company and sign written confirmation opinion and ensure the truthfulness, accuracy and completeness of the information disclosed by the Company;
- (v) to honestly provide the Supervisory Committee with relevant information and not to prevent the Supervisory Committee or supervisors from exercising their functions and powers;
- (vi) to fulfill other obligations of diligence stipulated by laws, administrative regulations, department rules and Articles of Association.

No director shall act on behalf of the Company or the Board without the requirement of the Articles of Association or the lawful authorization of the Board. If a director violates laws, administrative regulations, department rules or the Articles of Association when performing his/her duties in the Company, such director shall indemnify the Company against losses incurred by the Company due to such violation.

Independent Non-executive Directors

Among all the members in the Board of Directors of the Company, the number of independent non-executive directors shall be not less than one third, with at least one of them being an accounting professional.

An independent non-executive director shall meet the following basic conditions:

- (i) having the qualifications as a director of a listed company in accordance with the laws, administrative regulations and other relevant provisions;

- (ii) being faithful and honest;
- (iii) being familiar with the laws of securities, administrative regulations, rules and other statutory documents, and having the necessary operation and management capacity to perform its duties;
- (iv) having not less than five years of working experience in the fields of securities, finance, laws and accounting;
- (v) being at least a university graduate and possessing at least a bachelor's degree (for those with not less than ten years' working experience in the field of securities, or having acted as head of a department of a financial institution or a higher position of this kind for at least eight years, the academic qualification will be loosened to a college graduate),;
- (vi) having the necessary time and effort to fulfill his/her duties;
- (vii) being independent as required by securities regulatory authorities;
- (viii) other conditions stipulated by the Articles of Association.

The following persons shall not act as an independent non-executive director:

- (i) persons employed by a listed company or its subsidiaries and their immediate family members and close social relationship (immediate family members shall include spouse, parents and children, while close social relationship shall include brothers and sisters, parents-in-law, daughters-in-law, sons-in-law, brothers-in-law and sisters-in-law, brothers and sisters of spouse);
- (ii) natural persons who directly or indirectly hold more than 1% issued shares of a listed company, natural person shareholders who are among the top 10 shareholders of a listed company, or natural persons who control more than 5% of the equity of a listed company, and lineal relatives of such persons as mentioned above;
- (iii) persons and their immediate family members and close social relationship employed by the shareholder entities which hold or control 5.0% or more of a listed company's equity or which are top five shareholder entities of a listed company, or institutes which have business contact or interest relationship with a listed company;
- (iv) persons who provide financial, legal or consulting services to a listed company and its controlling shareholders or each of its subsidiaries, and the immediate family members of such persons, including all persons of the task force of the intermediary agency providing such services, supervising officer of each level, persons signing for the report, partner and major persons in charge;
- (v) persons who had been persons under categories (i) to (iv) within the preceding year;
- (vi) persons who are employed by other securities companies in a capacity other than independent non-executive directors;
- (vii) other persons recognized by the laws, administrative regulations, department rules, the China Securities Regulatory Commission and securities regulatory authorities or the stock exchange in the place where the Company's shares are listed, unfit to serve as independent non-executive directors.

The tenure of the independent non-executive directors is the same as those of other directors of the Company and such director can serve consecutive terms upon re-election after the expiry of his

tenure, but shall not serve for more than six years. An independent non-executive director may resign before the expiry of his tenure. If the resignation of an independent non-executive director results in the number of independent non-executive directors or of the members of the Board to fall below the number required by the law or the Articles of Association, the leaving independent non-executive director shall continue to perform his/her duties in accordance with the laws, administrative regulations and the Articles of Association until a new independent non-executive director is appointed in his/her place.

If any independent non-executive director has not attended Board meetings in person for three times consecutively, the Board of Directors shall propose to the general meeting for the removal of such independent non-executive director. Except for circumstances described above and those set out in the Company Law relating to the prohibition of a person to act as a director, an independent non-executive director shall not be removed, without cause, from his office before the expiration of his term of office.

In addition to the powers conferred by the Company Law, relevant laws and regulations, the independent non-executive directors shall have the following special powers:

- (i) to perform related procedures for the connected transactions according to the relevant requirements of the laws of China, regulations, department rules, local laws and provisions of the stock exchange in the place where the Company's shares are listed;
- (ii) to propose the appointment and termination of accounting firms to the Board;
- (iii) to propose the convening of extraordinary general meetings to the Board;
- (iv) to propose the convening of Board meetings;
- (v) to publicly solicit proxies from shareholders before general meetings;
- (vi) to engage external audit institutions or advisory institutions independently to provide auditing and consultation for specific matters of the Company, the relevant costs of which shall be undertaken by the Company.

Independent non-executive directors shall submit annual report of all independent non-executive directors to the annual general meeting of the Company describing the result of performance of their duties.

The expense in respect of the appointment of intermediary agency and the exercising of power by independent non-executive directors shall be borne by the Company. The Company shall grant allowances to independent non-executive directors in an appropriate manner. The allowances shall be proposed by the Board for review and approval by the general meeting and shall be disclosed in the annual report of the Company. Apart from the above-mentioned allowances, the independent non-executive directors shall not receive other undisclosed benefits from the Company and its substantial shareholders or other related entities or persons.

The Board

The Company shall have the Board of Directors (the "Board") accountable to the general meeting. The Board shall comprise nine directors, including one chairman and the number of executive directors shall be no more than half of that of the directors and the number of independent non-executive directors shall be no less than three.

The Board shall perform the following duties:

- (i) to convene general meetings and to report his work to the general meeting;
- (ii) to implement the resolutions of the general meetings;
- (iii) to determine the Company's business plans and investment plans;
- (iv) to formulate the Company's plans on annual financial budgets and final accounts;
- (v) to formulate the Company's profit distribution plans and plans on deficit coverage;
- (vi) to formulate the proposals for increase or reduction of the registered capital, issuance of bonds or other securities and listing;
- (vii) to formulate plans for any substantial acquisition by the Company and repurchase of the Shares;
- (viii) to formulate plans for merger, division, change of the form and dissolution of the Company;
- (ix) to decide on external investment, acquisition and disposal of assets, asset mortgage, consigned financial management and connected transactions, etc. of the Company within the authority granted by the general meeting;
- (x) to resolve on the establishment of internal management organizations and branches of the Company;
- (xi) to appoint or dismiss the Company's president, secretary of the Board and chief compliance officer based on the nominations of the president; to appoint or dismiss the vice president, chief financial officer and other senior management who actually perform the above-mentioned duties based on the nominations of the president and determine their remunerations and penalties;
- (xii) to formulate the proposals for the allowance standard of the independent non-executive directors;
- (xiii) to formulate the basic management system of the Company;
- (xiv) to formulate the compliance management system and the risk control system of the Company;
- (xv) to formulate the amendment plan of the Articles of Association;
- (xvi) to formulate the equity incentive programs of the Company;
- (xvii) to manage the information disclosure matters of the Company;
- (xviii) to formulate the plan for the appointment and termination of accounting firms;
- (xix) to hear the work report of the president of the Company and to review the work of the president;
- (xx) to hear the report of the chief compliance officer on the compliance condition of the Company;
- (xxi) to consider and approve the guarantees provided to third parties which are not within the review range of the general meeting stipulated by Article 8.03 of the Articles of Association ;

- (xxii) to exercise other powers as conferred by the laws, administrative regulations, department rules and listing rules of the stock exchange in the place where the Company's shares are listed or provisions of the Articles of Association as well as the general meetings.

If such powers involving matters such as external investment, acquisition and disposal of assets, asset mortgage, entrusted financial management, connected transactions. The Board shall exercise such powers according to the listing rules of the securities regulatory authorities and the stock exchange in the place where the Company's shares are listed.

The Board shall make explanations to the general meeting regarding the non-standard auditor's opinions given by the accounting firm in relation to the financial reports of the Company.

The Board shall formulate the Rules of Procedure of Board meetings to ensure the implementation by the Board of the resolutions of general meeting, to improve efficiency and to make decision in a scientific manner.

The Board of the Company could establish special committees, such as the Strategy Committee, the Risk Control Committee, the Audit Committee, the Remuneration and Nomination Committee according to the resolutions of the general meeting.

The chairman is the legal representative of the Company, and shall perform the following duties:

- (i) to preside over general meetings and to convene and preside over the Board meetings;
- (ii) to supervise and examine the implementation of resolutions passed by the Board;
- (iii) to sign share certificates, bonds and other marketable securities of the Company;
- (iv) to sign important documents of the Board and other documents which should be signed by the legal representative of the Company;
- (v) to perform the duties as legal representative;
- (vi) to exercise discretion in dealing with matters of the Company in compliance with legal requirements and in the interests of the Company in case of force majeure events such as extraordinary natural disasters and report to the Board and the general meeting thereafter;
- (vii) to perform other duties conferred by the Board;

If the chairman fails to perform his duties, a director elected by more than half of all the directors shall act on his behalf.

Board meetings shall be held regularly at least four times every year, about once a quarter, and shall be convened by the chairman, with the notice of meeting sent in writing to all the directors 10 business days before the date of the meeting. The Chairman of the Board shall convene an extraordinary Board meetings within 10 working days in one of the following situations when it is:

- (i) considered necessary by the Chairman;
- (ii) jointly proposed by more than one-third of the Directors;
- (iii) proposed by the Supervisory Committee;
- (iv) jointly proposed by more than half of the independent non-executive directors;

- (v) proposed by the shareholders representing more than one-tenth of the voting rights;
- (vi) proposed by the president in case of an emergency;
- (vii) when a board meeting is required by the securities regulatory authorities.

The Board meetings shall only be held when more than half of the directors attend the meeting, including directors who designate other directors as their proxies to attend the meeting on their behalf in accordance with the provisions of laws, the listing rules of the Stock Exchange and the Articles of Association. Each director shall have one vote. Any resolution of the Board of Directors shall be subject to approval by a simple majority of the Board of Directors. Resolution on any matter set out in provisions (vi), (vii) (to formulate plans to repurchase the shares of the Company), (viii), (xv) and (xxi) of the above-mentioned powers of the Board shall be adopted only by consent and affirmative votes of two-thirds or more of the directors present at the relevant Board meeting. A director who is affiliated with any legal person or natural person involved in the subject matter of any resolution of the Board shall not exercise his voting right or another director's voting right as his proxy in respect of such resolution. The relevant Board meetings may be convened if attended by half or more of the directors who are not so affiliated, and the resolution is subject to approval by half or more of directors who are not so affiliated. If the number of such non-affiliated directors present at the meeting is less than three, the matter shall be submitted to the general meeting.

Directors shall attend the Board meetings in person. If a director cannot attend the meeting in person for any reason, he may authorize another director in writing to attend the meeting on his behalf.

Minutes of the Board meetings shall be made for the matters discussed at such meetings. Directors present at the meetings, the secretary to the Board and the recorder shall sign the minutes.

Directors shall be responsible for the resolutions of the Board meetings. If any resolution of the Board violates any laws, administrative regulations or the Articles of Association, resulting in significant losses to the Company, the directors who took part in the resolution shall be liable for compensation to the Company, while the directors who are certified by the meeting minutes as having expressed his opposition to such resolution when it was put to vote shall not be liable for the losses.

President and Senior Management

The Company shall have one president, who shall be appointed or removed by the Board. A president shall serve a term of three years and may serve consecutive terms upon reappointment.

A senior management of the Company shall obtain the qualification for the positions of senior management of securities companies. A person who holds an office other than that of a director of the Company's controlling shareholder or actual controller shall not act as senior management of the Company.

The president shall be accountable to the Board and perform the following duties:

- (i) to be in charge of the Company's operation and management, to organize and implement the resolutions of the Board and to report his work to the Board;
- (ii) to organize and implement the Company's annual operation plan and investment plans;
- (iii) to prepare the plan for the setup of internal management of the Company;

- (iv) to establish the basic management system of the Company;
- (v) to formulate the Company's specific rules;
- (vi) to propose to appoint or dismiss the vice president, chief financial officer and other personnel who actually perform the above-mentioned duties;
- (vii) to appoint or remove management staff other than those who should be appointed or removed by the Board of Directors;
- (viii) to formulate the salary, welfare, penalties of the Company's staff, and to determine the appointment and dismissal of the Company's staff members;
- (ix) to make proposals for convening extraordinary Board meetings in case of an emergency;
- (x) to have other powers authorized by the Articles of Association or the Board.

The President may present at the Board meetings, but shall have no voting right if he/she is not a director.

The President shall, at the request of the Board of Directors or the Supervisory Committee, report thereto the execution and implementation of material contracts and the use of capital by, as well as the gains and losses of the Company. The President must ensure the accuracy of such report.

The President shall formulate rules for his/her work which shall be implemented upon approval of the Board of Directors.

The Company shall have one chief compliance officer, who shall be the compliance officer as well as senior management 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 securities regulatory authorities in China. The Company shall present regular compliance reports regarding the interim and annual reports of the Company to the securities regulatory authorities of the place where the domicile of Company is located. The compliance report shall be considered and approved by the Board meeting.

If a senior management violates any laws, administrative regulations, department rules and the Articles of Association in the course of performing his duties of the Company and causes losses to the Company, he shall be liable for the compensation.

Secretary of the Board

The Board shall have a secretary, who is a senior management of the Company and shall be accountable to the Company and the Board.

The secretary of the Board shall perform the following duties:

- (i) 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;
- (ii) to be responsible for the investor relations management and shareholder information management of the Company, and coordinate communication and liaison between the

Company and securities regulatory authorities, shareholders and actual controllers, sponsors, securities service providers and the media;

- (iii) to organize and prepare Board meetings and general meetings, attend general meetings, Board meetings, Supervisory Committee meetings and meetings related to senior management, and maintain and sign the minutes of Board meetings;
- (iv) 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;
- (v) pore over press coverage and initiatively seek confirmation of the authenticity of such coverage, and urge the Board of Directors to timely reply enquiries of the stock exchange;
- (vi) organize trainings concerning securities laws and regulations and relevant provisions for directors, supervisors and senior management, and assist them in understanding their rights and obligations in terms of information disclosure;
- (vii) urge the directors, supervisors and senior management to observe the laws and regulations, and earnestly fulfill their commitments; when becoming aware of that the Company makes or may possibly make a decision in violation of the relevant provisions, remind related personnel and immediately report it to the securities regulatory authority;
- (viii) ensure that the Company keeps complete organizational documents and records;
- (ix) ensure that the Company prepares and submits, in accordance with law, the reports and documents required by the competent authorities;
- (x) ensure proper establishment of the register of shareholders of the Company and ensure persons who are entitled to obtain related records and documents of the Company timely obtain the same;
- (xi) perform other duties as required by the Company Law, the Securities Law and the CSRC.

A director or other senior management of the Company may also act as the secretary to the Board of Directors. An accountant of the accounting firm appointed by the Company shall not act as the secretary to the Board of Directors of the Company.

Supervisors and the Supervisory Committee

Supervisors

The supervisors of the Company shall obtain the qualifications approved by China Securities Regulatory Committee. The directors and senior management shall not act concurrently as supervisors. The supervisors who represent the employees shall be democratically elected or removed by the employee of the Company.

Each supervisor shall serve for a term of three years, and is eligible for re-election. The supervisor may resign before expiry of his term of office, and the provisions regarding the resignation of the directors contained herein also apply to the supervisors. In case a supervisor has failed to attend in person at any two consecutive supervisory committee meetings, nor authorized another supervisor to vote on his behalf, he shall be considered unable to fulfill his duties as a supervisor, and the shareholders' general meeting or the general meeting of employees' representatives shall accordingly suggest the meeting making a replacement.

When attending the shareholders' general meeting of the Company, except for trade secrets of the Company which cannot be disclosed at the shareholders' general meeting, the Supervisory Committee should cooperate with the Board of Directors to reply or explain in response to the queries and recommendations of the shareholders. When attending the Board meetings of the Company, the supervisors should supervise the matters, including the legality of the procedures of convening the Board meetings of the Company, the abstention of directors as connected persons from voting and whether or not the contents of the resolutions of the Board meeting comply with the requirements of the laws, regulations and the Articles of Association and meet the actual needs of the Company.

The supervisors shall ensure that the information disclosed by the Company is true, accurate and complete. If a supervisor violates the laws, administrative regulations, department rules and the Articles of Association when performing his duties in the Company, such supervisor shall indemnify the Company against losses incurred due to such violation.

Supervisory Committee

The Company shall establish a Supervisory Committee. The Supervisory Committee shall be composed of five supervisors and one of the members shall act as the chairman. The election or removal of the chairman of the Supervisory Committee shall be determined by the affirmative votes of two-thirds or more of the members of the Supervisory Committee. The supervisors who represent the employees shall be not less than one-third of the total number of the supervisors.

The Supervisory Committee shall be accountable to the shareholders' general meeting and shall perform the following functions and duties in accordance with laws:

- (i) to review the Company's financial position;
- (ii) to supervise the directors and senior management' acts in performing duties of the Company, and propose a dismissal of any director, supervisor or senior management in violation of any laws, administrative regulations, the Articles of Association or resolutions adopted at the shareholders' general meetings;
- (iii) to demand any director or senior management who acts in a manner which is harmful to the interests of the Company to rectify such behavior, and report to the shareholders' general meetings or the national competent authorities when necessary;
- (iv) to examine the regular reports prepared by the Board of Directors and propose written examination comments;
- (v) to propose to convene an extraordinary shareholders' general meeting, and to convene or preside over a shareholders' general meeting where the Board of Directors fails to perform its duties to do so as required by the Company Law;
- (vi) to submit proposals to shareholders' general meeting;
- (vii) to initiate legal proceedings against any director or senior management in accordance with Article 151 of the Company Law;
- (viii) to attend the Board meetings and may raise inquiries or proposals in relation to matters discussed at such meetings.
- (ix) to verify the financial information such as the financial reports, business reports, profit distribution plans to be submitted by the Board of Directors to the shareholders' general

meeting and to authorize in the name of the Company, public certified accountants and practicing auditors to assist in the re-examination of such information, should any doubt arise in respect thereof;

- (x) to exercise other functions and powers as provided by the Articles of Association.

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. The supervisors may propose to convene an extraordinary meeting of the Supervisory Committee. Where the chairman of the Supervisory Committee is unable or fails to perform his duties, the meeting shall be presided over by a supervisor nominated by more than half of the supervisors.

The Supervisory Committee shall formulate the procedures rules to be followed at meetings of the Supervisory Committee, specify the method for conducting business and the voting procedures of the Supervisory Committee, so as to ensure the working efficiency and scientific decision-making of the Supervisory Committee. The procedures rules of the Supervisory Committee set out the convening and voting procedures of the meetings of the Supervisory Committee. The procedures rules of the Supervisory Committee shall be prepared by the Supervisory Committee and approved at the shareholders' general meeting as an appendix to the Articles of Association.

The meetings of Supervisory Committee can only be convened when more than half of the supervisors attend. Each supervisor shall have one vote. A resolution of the Supervisory Committee shall be passed by more than two thirds or more of the members of the Supervisory Committee.

Minutes shall be made for the meetings of the Supervisory Committee, and the supervisors and recorder present at the meeting shall sign thereon. Each supervisor shall be entitled to request for an explanation of his comments made at the meetings to be noted in the minutes. Such minutes shall be kept by the secretary to the Board of Directors as records of the Company in accordance with the laws.

Qualifications and Obligations of Directors, Supervisors, President and Other Senior Management

Under any of the following circumstances, the persons shall not serve as directors, supervisors, president or other senior management of the Company:

- (i) persons without civil capacity or with limited civil capacity;
- (ii) persons who have been penalized or sentenced due to an offense of corruption, bribery, encroachment on property, misappropriation of property or disruption of the social economic order, or have been deprived of political rights due to committing of any crime, and in each case, less than five years have elapsed since the completion of the relevant penalty, sentence or deprivation;
- (iii) persons who were former directors, factory directors or managers of a company or enterprise which had been bankrupt and liquidated whereby such persons were personally liable for the bankruptcy of such company or enterprise where less than three years have elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representative of a company or enterprise whose business license was revoked due to violation of laws whereby such persons were personally liable where

- less than three years have elapsed since the date of revocation of business license of the company or enterprise;
- (v) persons who have a substantial amount of debts due and outstanding;
 - (vi) persons who were ever the officer-in-charge of a stock exchange or securities registration and clearing institution or director, supervisor or senior management of a securities firm who was dismissed due to breach of the laws and irregularities where less than five years have elapsed since the date of such dismissal;
 - (vii) persons who were 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 due to breach of the laws and irregularities where less than five years have elapsed since the date of such disqualification;
 - (viii) persons who were employees of stock exchange, securities registration and clearing institution, securities service provider or securities company and government officers discharged due to breach of the laws and irregularities;
 - (ix) government officer and other person who are prohibited by laws and administrative regulations to concurrently take up positions in the Company;
 - (x) persons who have been banned from entering the market by securities regulatory authorities and have not been relieved of the ban;
 - (xi) persons who were subject to administrative penalties by financial regulatory departments due to material illegal or improper behavior where less than three years have elapsed since the date of completion of the penalties;
 - (xii) persons who are disqualified by the CSRC where less than three years have elapsed since the date of disqualification;
 - (xiii) persons who are declared to be unfit by the CSRC where less than two years have elapsed since the date of the declaration;
 - (xiv) persons who have been subject to an investigation by judicial authorities for criminal offences, and such investigation not having come to an end;
 - (xv) persons who are prohibited from acting as senior management of enterprises by laws and regulations;
 - (xvi) persons other than a natural person;
 - (xvii) persons who have been adjudged by the relevant competent authorities of violations of relevant securities laws which involves fraud or dishonesty, and five years not having elapsed since the date of the judgment;
 - (xviii) other circumstances as provided by the laws and regulations, or the listing rules of the place where the Company's shares are listed.

If any election or appointment of directors, supervisors or engagement of senior management violates the provisions of this article, such election, appointment or engagement shall be deemed invalid. Where a circumstance prescribed in this article occurs during the term of office of directors, supervisors or senior management, the Company shall dismiss them.

The validity of an act carried out by a director, president or other senior management on behalf of the Company, as against a bona fide third party, shall not be affected by any irregularity in his office, election or any defect in his qualification.

Each of the directors, supervisors, president and other senior management of the Company shall perform his duties in accordance with the principle of fiduciary and shall not put himself/herself in a position where his duty and their interest may conflict. These principles include (but not limited to) the following:

- (i) To act honestly in the best interest of the Company;
- (ii) To exercise powers within the scope of his powers;
- (iii) To exercise the discretion vested in him personally and not to allow himself/herself to act under the control of another and, unless and to the extent permitted by the laws, regulations or with the informed consent of shareholders at shareholders' general meeting, not to delegate to others for the exercise of his/her discretion;
- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) unless otherwise provided by the Articles of Association or with the informed consent of shareholders at shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (vi) not to use the Company's property for his/her own benefit, without the informed consent of shareholders at shareholders' general meeting;
- (vii) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including but not limited to opportunities advantageous to the Company;
- (viii) not to accept commissions relating to the transactions of the Company unless with the informed consent of shareholders at shareholders' general meeting;
- (ix) to obey the Company's Articles of Association, perform his duties honestly and faithfully, protect the Company's interests, and not to pursue his personal gain by taking advantage of his powers and positions at the Company;
- (x) not to compete with the Company in any way unless with the informed consent of shareholders at shareholders' general meeting;
- (xi) lend the funds of the Company to other persons, open accounts in his own or another individual's name for deposit of the Company's assets, or use Company's assets as security for the debts of the shareholders of the Company or other individuals;
- (xii) not to divulge the confidential information relating to the Company received during his term of office, unless approved by the shareholders with full knowledge at the general meeting; and not to use such information unless for the purpose of the Company's interests; however, to be allowed to disclose such information to a court of law or other governing authorities under the following circumstances: as prescribed by law; as required for the purpose of public interest; as required for the purpose of such director's, supervisor's, president's or other senior management' own interests;

The fiduciary duty of a director, supervisor, president and any other senior management of the Company may not necessarily cease upon the conclusion of his term, their obligations to keep confidential the business secrets of the Company shall survive the conclusion of his term. The duration of the other obligations and duties shall be determined in accordance with the principle of fairness, taking into account of the lapse between the time when he leaves the office and the occurrence of the relevant event, and the situation and the circumstances and terms under which his relation with the Company was ended.

The Company shall not, in any manner, perform tax duties for its directors, supervisors, president and other senior management.

The Company shall not directly or indirectly make a loan to or provide a guarantee to a director, supervisor, president and other senior management of the Company or of its parent company or any of their respective associates. The foregoing shall not apply to the following circumstances:

- (i) the provision by the Company of a loan or loan guarantee to its subsidiaries;
- (ii) the provision by the Company of a loan or loan guarantee or any other funds available to any of its director, supervisor, president and other senior management to meet expenditures incurred or to be incurred by him for the purpose of the Company or for the purpose of enabling him to perform his duties properly in accordance with an employment contract approved by the shareholders in a general meeting;
- (iii) if the ordinary course of the business of the Company includes the lending of money and the provision of loan guarantee, the Company may provide a loan and loan guarantee to the relevant directors, supervisors, president and other senior management or their respective associates, provided that they are on normal commercial terms.

In addition to the rights and remedies provided by law and administrative regulations when a director, supervisor, president or other senior management of the Company breaches the duties which he owes to the Company, the Company shall be entitled:

- (i) to demand such director, supervisor, president or other senior management compensate for the losses sustained by it as a result of such breach;
- (ii) to rescind any contract or transaction which has been entered into between the Company and such director, supervisor, president or other senior management or between the Company and a third party, where such party knew or should have known that such director, supervisor, president or other senior management representing the Company was in breach of his duty owed to the Company;
- (iii) to demand such director, supervisor, president or other senior management return the profits made as result of the breach of his duty;
- (iv) to recover any money which shall have been received by the Company but were received by such director, supervisor, president or other senior management instead, including (but not limited to) any commissions;
- (v) to demand repayment of interest earned or which may have been earned by such director, supervisor, president or other senior management on moneys which shall have been received by the Company.

The Company shall enter into a contract in writing with each director, supervisor, president or other senior management, which shall include at least the following provisions:

- (i) each director, supervisor and other senior management shall undertake to the Company that he/she will comply with the “Company Law,” the “Special Regulations,” the Articles of Association and the provisions of the “Code on Takeovers and Mergers” and the “Code on Share Repurchase” approved by the Securities and Futures Commission of Hong Kong as amended from time to time, and agree that the Company shall be entitled to the remedies provided in the Articles of Association and that neither the contract nor his/her office is capable of assignment;
- (ii) each director, supervisor and other senior management shall undertake to the Company that he/she will comply with and fulfill his/her obligations to the shareholders stipulated in the Articles of Association;
- (iii) the arbitration clauses stipulated by the Hong Kong Listing Rules.

The Company shall, with the prior approval of the shareholders’ general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. Contracts concerning the employment between the Company and its directors or supervisors shall provide that in the event that the Company is to be acquired by others, the Company’s directors and supervisors shall, subject to the prior approval of shareholders in a general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement.

Financial and Accounting System and Profit Distribution

Financial and Accounting Systems

The Company shall develop its financial and accounting systems in accordance with law, administrative regulations and provisions of the PRC general accepted accounting principles established by the competent financial departments of the State Council.

The Company shall release its interim financial report within two months after the end of the first six months of each fiscal year; release its annual financial report within four months after the end of each fiscal year.

The Board of Directors of the Company shall present to the shareholders, at every annual general meeting, such financial reports which the relevant laws, administrative regulations and normative documents promulgated by regional governmental authorities and the competent departments require the Company to prepare. Such reports shall be audited by an accounting firm. The Company’s financial reports shall be made available for shareholders’ inspection at the Company twenty days before the date of every annual general meeting.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting principles and regulations, be prepared in accordance with either international accounting principles or those of the place overseas where the Company’s shares are listed. If there is any material difference between the financial statements prepared in accordance with the two accounting principles, such difference shall be stated in the financial statements. In distributing the after-tax profits of the Company, the lower of the two amounts shown in the aforementioned two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting principles and regulations, and also in accordance with either international accounting principles or those of the place overseas where the Company's shares are listed.

The Company shall not keep an accounting book other than those required by law. No asset of the Company shall be deposited in any account opened in the name of any individual.

Profit Distribution

In distributing its after-tax profits, the Company shall allocate 10% of its net profit of the current year to the transaction risk reserve of the Company for covering losses incurred for securities transactions, but not for distributing dividends or increasing its capital, and then shall allocate 10% of its profits to the statutory common reserve of the Company. Allocation to the Company's statutory common reserve may be waived once the cumulative amount of funds therein exceeds 50% of the Company's registered capital. Where the statutory common reserve of the Company is not sufficient to cover the Company's loss from the previous year, the current year profits shall be used to cover such loss before allocation is made to the statutory common reserve pursuant to the previous paragraph. After allocation to the statutory common reserve has been made from the after-tax profits of the Company, the discretionary surplus reserve fund shall also be allocated from the after-tax profits upon passing a resolution at the shareholders' general meeting. The Company shall not distribute profits to the shareholders before covering losses of the previous year and making allocation to the statutory common reserve. After the Company has covered its loss and made allocation to the reserve funds, the remainder of the after-tax profits shall be distributed to the shareholders in proportion to their share holdings, unless otherwise stipulated in the Articles of Association of the Company.

The Company may distribute dividends in the following forms:

- (i) cash;
- (ii) shares;
- (iii) a combination of cash and shares.

The profit distribution plan of the Company shall be determined by the management of the Company and then submitted to the Board of Directors and the Board of Supervisors for consideration and approval. The Board of Directors shall conduct a full discussion on the rationality of the profit distribution plan and reach a special resolution, which shall then be submitted to the shareholders' general meeting for consideration and approval.

Upon making a resolution on the profit distribution plan by the shareholders' general meeting of the Company, the Board of Directors shall complete the relevant matters regarding the distribution of dividends (or shares) within two months after the date of the shareholders' general meeting.

In case of force majeure such as war or natural disasters, or any changes in the external operation environment of the Company which may have a material impact on the production and operation of the Company, or any changes in its own operating conditions of the Company, the Company may make adjustments to its profit distribution policy. The Board of Directors shall make special discussion on adjusting the profit distribution policy of the Company, detail the reasons of such adjustments and form a written demonstration report, which shall be submitted to the shareholders'

general meeting for approval by a special resolution after prior consideration of the independent non-executive directors. When considering the matters regarding any change in profit distribution policy, the Company may provide the Internet voting platform for the shareholders.

The Company shall appoint receiving agents for the holders of overseas-listed foreign-invested shares to receive and keep on behalf of such shareholders dividends declared and other amounts payable by the Company in respect of such shares. The receiving agents appointed for holders of overseas-listed foreign-invested shares listed in the Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong. Subject to the relevant PRC laws and regulations and the provisions of the Stock Exchange, the Company may exercise the right of confiscation against any unclaimed dividends, but such right may only be exercised when the applicable limitation expires. The Company shall have the right to terminate the serving of dividend warrant to holders of the Overseas-Listed Foreign-Invested Shares by post, but it may exercise this right only if the dividend warrant hasn't been withdrawn for two consecutive times. If the dividend warrant hasn't been served to the recipient at the first time and is returned, the Company may then exercise such right.

The Company shall have the right to sell, in such manner as the Board thinks fit, any shares of the shareholder of overseas-listed foreign-invested shares who is untraceable subject to the following conditions:

- (i) the Company has distributed dividends of such shares for at least three times in the previous 12 years, but such dividends still remain unclaimed during that period; and
- (ii) the Company shall put notices on one or more newspapers of the place where the Company is listed upon expiry of the aforementioned 12-year period, stating its intention to sell such shares, and then notify the stock exchange of the place where the Company is listed.

Appointment of Accounting Firm and Internal Audit

The Company shall engage an independent accounting firm which is qualified under the relevant regulations of China to audit the annual financial statements and other financial reports of the company. The Company shall engage an accounting firm which has obtained the qualification to engage in securities related businesses to audit the financial statements, net assets verification and other relevant consultancy services. The term of office of an accounting firm appointed by the Company shall be one year, and the appointment may be renewed.

The remuneration of an accounting firm or the manner for determining the same shall be determined by the shareholders in a general meeting. The remuneration of an accounting firm appointed by the Board shall be determined by the Board.

The accounting firm appointed by the Company shall enjoy the following rights:

- (i) to inspect the books, records and vouchers of the Company at any time; to require the directors, president or other senior management of the Company to provide relevant information and explanations;
- (ii) to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanations as are necessary for the purpose of discharging its duties;
- (iii) to attend shareholders' general meetings and to receive all notices of, and other information relating to any shareholders' general meeting which any shareholder is

entitled to receive, and to deliver speeches at any shareholders' general meeting in relation to the matters concerning its role as the accounting firm of the Company.

The Company's engagement, removal or discontinuance of engagement of an accounting firm shall be resolved by the shareholders at a general meeting, and such resolution shall be filed with the China securities regulatory authorities. When the Company intends to remove or do not renew the engagement of an accounting firm, it shall notify the said firm 30 days in advance, and the accounting firm shall be entitled to state its opinions at the shareholders' general meeting.

Where the accounting firm resigns, it shall state to the shareholders' general meeting whether there is anything inappropriate in the Company. The accounting firm may resign by placing a written notice of resignation at the legal address of the Company. The notice shall include:

- (i) a statement to the effect that there are no circumstances in connection with its resignation which should be brought to the notice of the shareholders or creditors of the Company; or
- (ii) a statement of other circumstances considered necessary.

If the resignation notice of the accounting firm contains a statement on any issues to be explained, it may request the Board to convene an extraordinary general meeting to hear its explanation on issues relating to its resignation.

Merger and Division

In the event of the merger or division of the Company, a plan shall be presented by the Board of the Company and shall be approved in accordance with the procedures stipulated in the Articles of Association of the Company, and the Company shall then go through the relevant approval process according to the laws. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders' shares at a fair price

The merger of the Company may take the form of either merger by absorption or the establishment of a new company. In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days from the date of the Company's merger resolution and shall publish a notice through other means such as a newspaper within 30 days from the date of the Company's merger resolution. A creditor has the right within 30 days of receiving such notice from the Company or, for creditors who do not receive the notice, within 45 days from the date of the public notice, to demand the Company to settle its debts or provide corresponding guarantees for such debts. Where the Company fails to settle its debts or provide corresponding guarantees for such debts, it may not be merged or divided. After merger, any rights in relation to debtors and any indebtedness of each of the merged parties shall be assumed by the Company which survives the merger or the newly established company.

Where there is a division of the Company, its assets shall be divided up accordingly. In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within 10 days of the date of the Company's division resolution and shall publish an announcement in a newspaper within 30 days. The debts of the Company prior to the division shall be assumed jointly and

severally by the companies arising from the division, except for those which written agreement has been reached with the creditor in respect of repayment of the debts prior to the division.

The Company shall, in accordance with law, apply for change in its registration with the Company registration authority where a change in any item in its registration arises as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration in accordance with law. Where a new company is established, the Company shall apply for registration thereof in accordance with law.

Dissolution and Liquidation

In any of the following circumstances, the Company may be dissolved and liquidated according to the laws upon approval by China securities regulatory authorities:

- (i) where the term of operations expires;
- (ii) where the shareholders' general meeting has adopted a resolution for dissolution;
- (iii) where dissolution is required due to merger or division of the Company;
- (iv) where the business license is revoked, or the Company is ordered to close down or revoked;
- (v) where the Company runs deep into difficulties in operation and management, its continuous existence may cause heavy losses to shareholders' interests, and such difficulties cannot be dealt with in other ways, the shareholders holding more than 10% votes of all shareholders' of the Company may apply to the people's court to dissolve the Company;
- (vi) where the Company is declared bankrupt according to the laws due to its inability to repay its debts as they fall due.

In the circumstance set out in item (i) above, the Company may continue to subsist by amending this Articles of Association, and the amendment shall be approved by two-thirds or more of the voting rights held by the shareholders present at shareholders' general meetings.

Where the Company is dissolved pursuant to the item (i), (ii), (iv) or (v) above, it shall establish a liquidation committee to carry out liquidation within 15 days upon approved by the CSRC. The liquidation committee shall be composed of the persons determined by the Board or the shareholders' general meeting. In case no liquidation committee is established within the specified period to carry out liquidation, the creditors may apply to the people's court to designate related persons to form a liquidation committee and carry out liquidation.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- (i) to sort out the Company's assets and prepare the balance sheet and an inventory of assets;
- (ii) to notify the creditors or publish public announcements;
- (iii) to dispose of and liquidate any unfinished businesses of the Company;
- (iv) to pay all outstanding taxes and taxes arising from the liquidation;

- (v) to settle claims and debts;
- (vi) to dispose of the surplus assets remaining after the Company's debts have been repaid;
- (vii) to represent the Company in any civil proceedings.

The liquidation committee shall send notices to the creditors within 10 days of its establishment and shall make announcements in the newspaper within 60 days. The liquidation committee shall register the creditor's rights. The creditors shall claim their rights to the liquidation committee within 30 days of receipt of the notice or within 45 days of the date of the public announcement if the creditors received no notice. In claiming its rights, the creditor shall provide evidential material in respect thereof. The liquidation committee shall register the creditor's rights. In the course of claiming of creditor's rights, the liquidation committee shall not make any repayment to the creditors.

After the liquidation committee has sorted out the assets of the Company and prepared a balance sheet and an inventory of assets, it shall formulate a liquidation proposal and submit it to the shareholders' general meeting or the relevant competent authorities for confirmation.

The assets of the Company shall be paid off in the following order:

- (i) to pay the liquidation expenses;
- (ii) to pay employees' salary, social insurance expenses and statutory compensations;
- (iii) to pay outstanding taxes;
- (iv) to pay the Company's debts.

Any surplus assets of the Company' remaining after repaying fees and debts in accordance with the foregoing provision shall be distributed to its shareholders based on the category and proportion of shares held.

During the liquidation period, the Company shall not carry out any new business activities. The assets of the Company shall not be distributed to shareholders prior to repaying debts in accordance with the foregoing provision.

Where the liquidation is due to dissolution of company, after sorting out the Company's assets and preparing a balance sheet and an inventory of assets, if the liquidation committee discovers that the Company's assets are insufficient to repay its debts in full, it shall immediately apply to the people's court for a declaration of insolvency. After the Company is declared insolvent by a ruling of the people's court, the liquidation committee shall transfer to the people's court all matters relating to the liquidation.

Upon completion of liquidation, the liquidation committee shall prepare a liquidation report and a statement of the receipts and payments and the financial accounts for the liquidation period which shall be audited by PRC certified public accountants and then submitted to the shareholders' general meeting or relevant competent authorities for approval. The liquidation committee shall submit the aforesaid documents to the company registration authority, apply for cancellation of company registration, and announce the termination of the Company within 30 days after approval is obtained from the shareholders' general meeting or relevant competent authorities.

Amendment Procedure to the Articles of Association

The Company may amend the Articles of Association in accordance with the laws, administrative regulations, the Listing Rules of the place where the Company's shares are listed and the Articles of Association. The Company shall amend the Articles of Association under any of the following circumstances:

- (i) there is a conflict between these Articles and any provision of the amended version of the Company Law, the laws, administrative regulations and the Listing Rules of the place where the Company's shares are listed;
- (ii) there is any change to the Company's situation and is inconsistent with any matter recorded in the Articles of Association; and
- (iii) The general meeting has resolved to amend the Articles of Association.

Any amendment to the Articles of Association approved by the general meeting involving the mandatory provisions shall become effective upon approval by the securities regulatory authorities; other matters shall be submitted to the securities regulatory authorities for approval and filing where necessary; if the amendment involves any registered particulars, application shall be made for change of registration in accordance with the laws.

Settlement of Disputes

All disputes and claims between shareholders of overseas-listed foreign-invested shares and the Company, between shareholders of overseas-listed foreign-invested shares and the directors, supervisors, president or other senior management of the Company, or between the Company and its directors, supervisors, the president or other senior management, or between shareholders of overseas-listed foreign-invested shares and other domestic shareholders arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and regulations concerning the affairs of the Company shall be referred by the relevant parties to arbitration. The dispute or claim shall be referred to arbitration as a whole. All parties involved in the same dispute or claim shall abide by the arbitration if such party is the Company or the shareholder, director, supervisor, president or other senior management of the Company.

Disputes relating to the definition of shareholders and dispute in relation to the register of shareholders need not be resolved by arbitration.

The claimant may select for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant submits a dispute or claim to arbitration, the other party shall accept arbitration at the arbitral body selected by the claimant. If a claimants elects for arbitration to be carried out at Hong Kong International Arbitration Center, 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 Hong Kong International Arbitration Center.

The award of an arbitration body shall be final and binding on all parties.

Notices and Announcements

The Company shall publish announcements and disclose information to domestic shareholders through information disclosure newspapers and websites designated by the CSRC in accordance with the laws and regulations. If the Company is required to make an announcement to the holders of overseas-listed foreign-invested shares in accordance with the Articles of Association, the Listing Rules of Stock Exchange or the laws and regulations, the relevant announcements shall be published at the same time in the same manner as prescribed in the Listing Rules of Stock Exchange.

1. FURTHER INFORMATION

A. Incorporation

Our Company was established in the PRC as an enterprise owned by the whole people (全民所有制企業) on November 19, 1992 under the name of Wuxi Securities Company* (無錫市證券公司) with a registered capital of RMB32 million. On January 8, 1999, our Company was converted into a limited liability company and was renamed as Wuxi Securities Co., Ltd.* (無錫證券有限責任公司). On May 26, 2008, upon the approval from the CSRC and upon registration with Wuxi AIC, our Company was converted into a joint stock company with limited liability, and was renamed as Guolian Securities Co., Ltd. (國聯證券股份有限公司). The registered office and headquarters of our Company in the PRC is located at No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC.

Our Company established a place of business in Hong Kong at 18th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 9, 2015. Ms. Leung Wing Han Sharon has been appointed as our agent 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 18th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

As we are established 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 the section headed "Regulatory Environment" in and 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 19, 1992, our initial registered capital was RMB32,000,000, all of which was fully paid up.

On January 8, 1999, upon the approval from the CSRC and upon registration with Wuxi AIC, the registered capital of our Company was increased from RMB32,000,000 to RMB50,000,000, all of which was fully paid up.

On January 29, 2002, upon approval from the CSRC and upon registration with Wuxi AIC, the registered capital of our Company was increased from RMB50,000,000 to RMB1,000,000,000, all of which was fully paid up except certain properties to be contributed by Guolian Trust. For further details, please see "History and Corporate Structure—Major Increases in Share Capital" in this prospectus.

On May 26, 2008, upon the approval from the CSRC and upon registration with Wuxi AIC, our Company was converted into a joint stock company with limited liability and the registered capital of our Company was increased from RMB1,000,000,000 to RMB1,500,000,000, divided into 1,500,000,000 shares with nominal value of RMB1.00 each, all of which was fully paid up.

Immediately upon completion of the Global Offering, the registered capital of our Company will be RMB1,902,400,000, made up of 1,459,760,000 Domestic Shares and 442,640,000 H Shares (including 40,240,000 H Shares converted from Domestic Shares and sold by the Selling Shareholders for the benefit of the 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 January 5, 2015

At our extraordinary shareholders' meeting held on January 5, 2015, among other things, the following resolutions were passed by the Shareholders:

- (a) the issue of the H Shares by our Company and the Listing, whereby the number of H Shares to be issued shall not exceed a total of 441,180,000 Shares was approved; the issue price of the H Shares will be decided upon, among other things, the completion of the book building process for the Listing; the Selling Shareholders of our Company shall sell such number of Domestic Shares as in aggregate would be equivalent to 10% of the Offer Shares to be issued under the Global Offering and remit the proceeds from the sale of the Sale Shares (after deducting relevant expenses and fees) to the NSSF;
- (b) subject to the completion of the Global Offering, the Articles of Association which shall become effective on the Listing Date was adopted and the Board was authorized to amend the Articles of Association in accordance with the relevant laws and regulations and the requirements by the relevant government authorities; and
- (c) the Board was authorized to handle all other matters relating to, among other things, the issue of the H Shares and the Listing.

2. FURTHER INFORMATION OF OUR SUBSIDIARIES

The list of our principal subsidiaries (as defined under the Listing Rules) as of December 31, 2014 is set out under the financial statements in the Accountant's Report as included in Appendix I to this prospectus. Saved as otherwise disclosed in this prospectus, 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.

3. 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 to our business and a copy of each has been delivered to the Registrar Companies for registration:

- (a) the Non-competition Agreement;
- (b) an equity interest option agreement dated June 15, 2015, entered into between our Company, Guolian Group and Guolian Futures, pursuant to which Guolian Group has granted us an option to acquire any or all of the respective equity interest in Guolian Futures held directly by itself or indirectly by its subsidiaries. Please see "Relationship with our Controlling Shareholders – Excluded Asset Management Business – Measures to Eliminate Potential Competition upon Listing" in this prospectus for details;
- (c) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and China Life Franklin Asset Management Co.,

Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;

- (d) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and CITIC Capital GL Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (e) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Coastal Capital Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (f) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Wind Information (HK) Company Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (g) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and CSR (Hong Kong) Co. Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (h) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Dong Yin Development (Holdings) Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (i) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and China Re Asset Management (Hong Kong) Company Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (j) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Essence Securities Co., Ltd. (安信證券股份有限公司), the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (k) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Fund Resources Investment Holding Group Company Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (l) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Myriad Opportunities Master Fund Limited, the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (m) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Orient Minerva Asset Management Co. Ltd. (東方匯智資產管理有限公司), the details of which are set out in the section headed “Cornerstone Investors” in this prospectus;
- (n) a cornerstone investment agreement dated June 19, 2015 entered into among our Company, the Joint Global Coordinators, and Jiangsu Xinhua Daily Media Group Co.,

Ltd. (江蘇新華報業傳媒集團有限公司), the details of which are set out in the section headed “Cornerstone Investors” in this prospectus; and

- (o) 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:

Hua Ying Securities

| | | |
|--|---|------------------|
| Parties and equity interest: | Our Company | 66.700% |
| | The Royal Bank of Scotland plc (“RBS”) | 33.300% |
| Capital contribution: | Our Company | RMB533.6 million |
| | RBS | RMB266.4 million |
| Registered capital: | RMB800 million | |
| Terms of joint venture: | N/A | |
| Date of establishment: | April 20, 2011 | |
| Scope of business: | Underwriting and sponsoring business of shares (including RMB ordinary shares and foreign shares) and bonds (including government bonds and corporate bonds) and other businesses as approved by the CSRC | |
| Nature: | Sino-foreign equity joint venture | |

Any equity transfer of Hua Ying Securities 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 Hua Ying Securities. The entitlements of the joint venture shareholders to profits and other distributions are in proportion to their capital contribution. The board of directors of Hua Ying Securities consists of nine members, of which two independent directors and four non-independent directors (including the general manager of Hua Ying Securities) should be appointed by our Company, the remaining one independent director and two non-independent directors should be appointed by RBS. The chairman of the board should be selected from the six directors appointed by our Company. The senior management shall all be appointed by the board of directors of Hua Ying Securities.


RBS is in the process of transferring its equity interest in Hua Ying Securities and such transfer is subject to the approvals from the relevant PRC regulatory authorities. Such transfer has not been completed as of the Latest Practicable Date.

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, in the opinion of our Directors, are material in relation to our Company’s business.

Trademarks

As of the Latest Practicable Date, we have registered the following trademarks in the PRC which, in the opinion of our Directors, are material to our business:

| <u>No.</u> | <u>Owner</u> | <u>Trademark</u> | <u>Registration Number</u> | <u>Duration</u> | <u>Class</u> |
|------------|---------------------|---|----------------------------|-------------------------------------|--------------|
| 1. | Hua Ying Securities |  | 10099423 | July 7, 2013- July 6, 2023 | 36 |
| 2. | Our Company |  | 7263764 | October 7, 2010- October 7, 2020 | 36 |

As of the Latest Practicable Date, we have registered the following trademarks in Hong Kong which, in the opinion of our Directors, are material to our business:

| <u>No.</u> | <u>Owner</u> | <u>Trademark</u> | <u>Registration Number</u> | <u>Duration</u> | <u>Class</u> |
|------------|--------------|--|----------------------------|--|--------------|
| 1. | Our Company | A  B  | 303182157 | October 29, 2014 – October 28, 2024 | 36 |
| 2. | Our Company | A  B  | 303182166 | October 29, 2014 – October 28, 2024 | 36 |

Copyrights

As of the Latest Practicable Date, we are the registered owner of the following copyright granted in the PRC which, in the opinion of our Directors, is material to our business:

| <u>No.</u> | <u>Owner</u> | <u>Name of Copyright</u> | <u>Registration Number</u> | <u>Registration Date</u> | <u>Type</u> |
|------------|--------------|--------------------------------|----------------------------|--------------------------|-------------|
| 1. | Our Company | 證券核心業務網 QoS 監測和安全 管理系統軟件 | 2009SR040171 | September 17, 2009 | Software |

Domain Name

As of the Latest Practicable Date, we have registered the following domain names which, in the opinion of our Directors, are material to our business:

| <u>No.</u> | <u>Domain Name</u> | <u>Registrant</u> | <u>Expiry Date</u> |
|------------|--------------------|---------------------|--------------------|
| 1. | glsc.com.cn | Our Company | September 8, 2020 |
| 2. | huayingsc.com | Hua Ying Securities | April 15, 2016 |

4. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS**A. Particulars of Directors' and Supervisors' Contracts**

Each of the Directors entered into a director's service contract with our Company on June 15, 2015. These service agreements (a) are for a term commencing the Listing Date and ending on the expiration of the term of the second session of the Board; (b) are subject to termination in accordance with their respective terms; and (c) contains provisions 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 supervisor's service contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and contains provision on arbitration with our Company on June 15, 2015.

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 fees, salaries, remuneration, pension, discretionary bonus and other welfares, housing and other allowances and other benefits in kind) which were paid to the Directors during the three years ended December 31, 2012, 2013 and 2014 were approximately RMB1.60 million, RMB1.83 million and RMB2.26 million, respectively.

The aggregate amounts of emolument (including fees, salaries, remuneration, pension, discretionary bonus and other welfares, housing and other allowances and other benefits in kind) which were paid to the Supervisors during the three years ended December 31, 2012, 2013 and 2014 were approximately RMB0.63 million, RMB0.72 million and RMB0.87 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, 2012, 2013 and 2014.

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, 2015 are estimated to be approximately RMB2.58 million and RMB0.88 million, respectively.

Each of the Directors and Supervisors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

DISCLOSURE OF INTERESTS**A. Interests and Short Positions 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 or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, once the H Shares are listed.

B. Interests and Short Positions of Substantial Shareholders of our Company

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 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 our Company, please see the section headed “Substantial Shareholders” in this prospectus.

C. Interests and Short Positions of Substantial Shareholder in Associated Corporation of our Company

To the best knowledge of our Directors, the following person will, immediately after completion of the Global Offering, 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 following associated corporation of our Company:

Long Position

Hua Ying Securities

| <u>Name of Shareholder</u> | <u>Capacity/Nature of Interest</u> | <u>Amount of registered capital interested</u> | <u>Approximate Percentage of Shareholding</u> |
|--------------------------------|------------------------------------|--|---|
| The Royal Bank of Scotland plc | Beneficial owner | RMB266.4 million | 33.300% |

D. Disclaimers

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (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 or the parties listed in the paragraph headed “Qualification of Experts” in this Appendix 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) Save in connection with the Underwriting Agreements, 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 securities in any member of our Group;
- (d) save as disclosed in this prospectus, none of the Directors or Supervisors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of our Company falling to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange;
- (e) as of the Latest Practicable Date, none of the Directors, Supervisors, or their respective 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 customers;
- (f) save as disclosed in this prospectus, 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, 2012, 2013 and 2014, as an inducement to join or upon joining our Company, or as compensation for loss of office, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

5. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on our Company or any of our subsidiaries.

B. Litigation

As of the Latest Practicable Date, save as disclosed in “Business – Legal and Regulatory Compliance” 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 our Company.

C. Restrictions on Share Repurchase

Please see the section headed “Appendix IV – Summary of Principal Legal and Regulatory Provisions – Summary of Material Differences Between Hong Kong and PRC Company Laws – Companies Ordinance – (vi) Restrictions on purchase and subscription of its own securities” in this prospectus for details.

D. Joint Sponsors

Qilu International Capital Limited, being one of the Joint Sponsors, satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

BOCOM International Holdings, being the holding company of BOCOM International (Asia) Limited, is in the process of creating a business relationship with our Group, which is the result of a potential acquisition of a minority equity interest in a subsidiary of our Company from a core connected person of our Company. It is not predicable at this stage when and whether such business relationship will be established. Furthermore, even if the business relationship is established, it may not have any material immediate impact on the operations, financial results or performance of our Company. Once the business relationship is set up, BOCOM International Holdings, as a member of the sponsor group of BOCOM International (Asia) Limited, will become a core connected person of our Company and therefore BOCOM International (Asia) Limited is not expected to be an independent sponsor according to the independence criteria set out in Rule 3A.07 of the Listing Rules.

An indirectly wholly-owned subsidiary of ABC International Holdings Limited, being the holding company of ABCI Capital Limited, has 70% equity interest in ABCI Guolian Wuxi Investment Management Co., Ltd.* (農銀國聯無錫投資管理有限公司) (“ABCI Guolian Investment Management”) and the remaining 30% equity interest of ABCI Guolian Investment Management is indirectly owned by Guolian Group, being one of the Controlling Shareholders of our Company. On this basis, a member of the sponsor group of ABCI Capital Limited is a core connected person of our Company and therefore ABCI Capital Limited is not considered as an independent sponsor according to the independence criteria set out in Rule 3A.07 of the Listing Rules. In addition, ABCI Guolian Investment Management, is the general partner of ABCI Wuxi Equity Investment Fund (Limited Partnership)* (農銀無錫股權投資基金企業(有限合夥)) (“ABCI Wuxi Equity Investment”), whilst the limited partners of ABCI Wuxi Equity Investment include a wholly-owned subsidiary of ABC International Holdings Limited and a wholly-owned subsidiary of Guolian Group. ABCI Guolian Investment Management may charge ABCI Wuxi Equity Investment management fees for the management services it provides.

The Joint Sponsors have made an application on our behalf to the Listing Committee of the 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\$6.3 million.

E. Compliance Advisor

We have appointed BOCOM International (Asia) Limited as our compliance advisor effective from the Listing Date in compliance with Rule 3A.19 of the Listing Rules.

F. Preliminary Expenses

The estimated preliminary expenses in relation to the conversion of our Company from a limited liability company into a joint stock limited liability company were approximately RMB104,000 and were paid or payable by us.

G. Qualification of Experts

The qualifications of the experts, as defined under the Listing Rules, who have given opinions in this prospectus, are as follows:

| <u>Name</u> | <u>Qualification</u> |
|---|--|
| BOCOM International (Asia) Limited | a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| ABCI Capital Limited | a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| Qilu International Capital Limited | a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| PricewaterhouseCoopers | Certified Public Accountants |
| Jingtian & Gongcheng | PRC legal advisor |
| Jones Lang LaSalle Corporate Appraisal and Advisory Limited | Independent Property Advisor |

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 are effected on the H Share register of members of our Company, including in circumstances where such transactions are effected on the 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, 2014.

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. Consents

Each of BOCOM International (Asia) Limited, ABCI Capital Limited, Qilu International Capital Limited, PricewaterhouseCoopers, Jingtian & Gongcheng and Jones Lang LaSalle Corporate Appraisal and Advisory Limited, as referred to in “G. Qualification of Experts” in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of any of its 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.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in our Company or any subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of its subsidiaries.

L. Promoters

The promoters of our Company are Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental, Wuxi Minsheng Investment Co., Ltd.* (無錫民生投資有限公司), Wuxi Jinhong Telecommunications Group Co., Ltd.* (無錫金鴻通信集團有限公司), Jiangsu Xinfang Industrial Co., Ltd.* (江蘇新紡實業股份有限公司), Wuxi Weifu High-technology Co., Ltd.* (無錫威孚高科技集團股份有限公司), Wuxi New District Development Group Co., Ltd.* (無錫市新區發展集團有限公司), Wuxi Xinye Construction Development Co., Ltd.* (無錫市新業建設發展公司) and Yixing Assets Management Company* (宜興市資產經營公司). 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.

M. Particulars of the Selling Shareholders

- (a) Guolian Group, whose address is located at No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC, is primarily engaged in management and operation of capital assets, agency investment, investment consultancy and investment service, and it controls or invests in a group of companies which are engaged in relevant business relating to financial sectors such as securities, trust, banking, futures, asset management, insurance and funds, as well as relevant business relating to industrial sectors such as environmental protection, electric power, textile and logistics.
- (b) Guolian Trust, whose address is located at 10/F-11/F, No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC, is primarily engaged in the provision of trust services and direct investment in the PRC.
- (c) Wuxi Electric, whose address is located at No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC, is primarily engaged in the planning and operation of municipal public electric system and facilities in Wuxi.
- (d) Guolian Textile, whose address is located at Guolian Building, No. 168 East Xianqian Street, Wuxi, Jiangsu Province, the PRC, is primarily engaged in the sale of textile products.
- (e) Guolian Environmental, whose address is located at No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC, is primarily engaged in the design, construction, operation and management of environmental-friendly power stations, and the production of relevant equipment.
- (f) Wuxi New District Development Group Co., Ltd.* (無錫市新區發展集團有限公司), whose address is located at No. 5 Tianshan Road, New District, Wuxi, Jiangsu Province, the PRC, is primarily engaged in real estate development and government-project construction.
- (g) Wuxi Xinye Construction Development Co., Ltd.* (無錫市新業建設發展公司), whose address is located at No. 4 Parcel, Development Area, Wuxi, Jiangsu Province, the PRC, is primarily engaged in the sales of construction materials.

- (h) Yixing Assets Management Company* (宜興市資產經營公司), whose address is located at Dongshan Finance and Taxation House, Yicheng Street, Yixing, Jiangsu Province, the PRC, is primarily engaged in equity investment, project operation and asset management.

N. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately but available to the public at the same time, pursuant to Rule 11.14 of the Listing Rules and 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.

O. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus: (i) none of the member of our Group has 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 any member of our Group;
- (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) our Company has no outstanding convertible debt securities;
- (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) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (i) there are no part of the equity or debt securities of our Company which 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 Stock Exchange is currently being or agreed to be sought; and
- (j) 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.

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—5. Other Information—K. Consents” to this prospectus;
- (c) a copy of each of the material contracts referred to in “Appendix VI—Statutory and General Information—3. Further Information about our Business—A. Summary of our Material Contracts” to this prospectus; and
- (d) the statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road, 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;
- (b) the Accountant’s Report prepared by PricewaterhouseCoopers, the text of which is set out in “Appendix I—Accountant’s Report” to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in “Appendix II—Unaudited Pro Forma Financial Information” to this prospectus;
- (d) the PRC legal opinions issued by our PRC legal advisor, Jingtian & Gongcheng, in respect of general matters and property interests of our Group;
- (e) the letter of opinion prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in respect of the rental of the continuing connected transactions of our Group as disclosed in “Connected Transaction—Non-exempt Continuing Connected Transactions—2. Property Leasing and Related Services Framework Agreement” in this prospectus;
- (f) the material contracts referred to in “Appendix VI—Statutory and General Information—3. Further Information about our Business—A. Summary of our Material Contracts” to this prospectus;
- (g) the audited consolidated financial statements of companies comprising our Group for each of the three years ended December 31, 2012, 2013 and 2014;
- (h) the written consents referred to in “Appendix VI—Statutory and General Information—5. Other Information—K. Consents” to this prospectus;
- (i) the service contracts referred to in “Appendix VI—Statutory and General Information—4. Further Information about our Directors and Supervisors—A. Particulars of Directors’ and Supervisors’ Contracts” to this prospectus; and
- (j) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof.

Integrity Prudence Openness Innovation



国联证券股份有限公司
GUOLIAN SECURITIES CO., LTD.