



# 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

ANNUAL REPORT **2016**





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## Important Notice

The Board of Directors, Supervisory Committee, Directors, Supervisors and senior management of the Company undertake that there is no misrepresentation, misleading statement or material omission in this annual report and they are jointly and severally liable for the authenticity, accuracy and completeness for the information contained in this annual report.

This report has been approved at the 10th meeting of the 3rd session of the Board and the 4th meeting of the 3rd session of the Supervisory Committee. The number of Directors present at the board meeting should be nine, but only eight Directors were present. Mr. Liu Hailin, Non-executive Director, didn't attend such meeting due to his business commitment and had appointed Mr. Yao Zhiyong, Chairman of the Board, in writing to exercise the Voting right on his behalf. All Supervisors had presented at the Supervisory Committee meeting. No Directors, Supervisors or senior management had any objections on the authenticity, accuracy or completeness of the content of this annual report or not able to guarantee thereon.

The 2016 financial report of the Company was prepared in accordance with IFRS and Accounting Standards for Business Enterprises of the PRC, and was audited by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP respectively, and they have issued auditors' reports with unqualified opinions. Unless otherwise stated, the figures stated in this report are presented in RMB.

The chairman of the Board, namely Mr. Yao Zhiyong, the President and the Officer in charge of accounting, namely Mr. Peng Yanbao, and the chief financial officer, namely Ms. Chen Zhiying, have declared that the financial report in this annual report is authentic, accurate and complete.

The Company's proposed annual profit distribution proposal for the year 2016 approved by the Board is a cash dividend of RMB1.40 (including tax) for every 10 shares. This proposal is still subject to the approval of the General Meeting of the Company.

The forward-looking statements including future plans and development strategies contained in this annual report do not represent the actual undertaking of the Company to its investors. Therefore, investors are reminded to exercise caution in the investment risks.

## Chairman's Statement



**Mr. Yao Zhiyong**  
Chairman

Dear Shareholders:

In 2016, the overall domestic securities market presented a downturn sentiment, with intensifying competition in securities brokers traditional businesses and industry operation experienced severe challenges. Affected by these factors, the profitability of the Company's brokerage business, credit transactions business and proprietary trading business declined significantly, which hampered the overall results performance of the Company. With the supply quality reform and financial reform deepening and the continuous increase in the proportion of direct financing in the capital market, the Company proactively seized such market opportunity and its investment banking business achieve a rapid growth in profit, which became an important growth sector in the performance of the Company.

In 2016, the Company accelerated the implementation of various strategic policies. For capital operation, the Company submitted its A Shares application to CSRC for initial public offering and was accepted for review and assessment, this marked a key leap for the Company to establish its "A+H" dual financing platform. For business expansion, the Company focused on the development of investment banking business and speeded up its international development layout in a timely manner. Hence, its business structure kept on optimizing. For branch network distribution, the Company promoted vigorously the regional strengths strategy and strived to enhance the comprehensive operation capability of its branch offices, so as to achieve breakthrough by radiating its success to other business segments. For risk control, under the regulatory concept of "legal supervision, stringent supervision and all-around supervision", the Company strictly abided the risk control bottom line, and consequently, various operation and management activities were able to sustain the market test.

## Chairman's Statement



Looking ahead into 2017, the securities market will still expose to pressure in many aspects, the layout mismatch between the declining expected earnings of securities brokers traditional business and increasing operation risks will remain. However, to our advantage, the reform measures will continue to bring potential opportunities for the securities brokers' innovative business development. In 2017, while actively facilitating the listing of A Shares, the Company will focus on boosting the development of innovative business according to its established strategic policies, quicken the building up of its regional advantages, further improve its risk management and control capability and actively deliver good returns to all shareholders for their trust by keep on improving its comprehensive competitiveness and market influence.

Chairman: Yao Zhiyong

15 March 2017

## Section 1 Definitions

### General Terms

Company, the Company or Guolian Securities	Guolian Securities Co., Ltd.
The Group	Guolian Securities Co., Ltd. and its subsidiaries
CSRC	China Securities Regulatory Commission
Jiangsu Bureau	The CSRC Jiangsu Bureau
SFC	Securities and Futures Commission of Hong Kong
HK Stock Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Director(s) and Board or Board of Directors	The Director(s) and the board of Directors of the Company
Supervisor(s) and Supervisory Committee	The Supervisor(s) and Supervisory Committee of the Company
General Meeting(s)	the general meetings of the Company
Guolian Group	Wuxi Guolian Development (Group) Co., Ltd.* (無錫市國聯發展(集團)有限公司), which directly and indirectly holds 72.35% of the shares of the Company, the Controlling Shareholder of the Company
Guolian Trust	Guolian Trust Co., Ltd.* (國聯信託股份有限公司), 83.74% of the shares of which is held by Guolian Group directly and indirectly and it holds 20.51% of the shares of the Company
Guolian Industrial	Wuxi Guolian Industrial Investment Group Co., Ltd.* (無錫國聯實業投資集團有限公司), a wholly-owned subsidiary of Guolian Group

## Section 1 Definitions

Guolian Futures	Guolian Futures Co., Ltd.* (國聯期貨股份有限公司), 54.72% of the shares of which is held by Guolian Group
Cotton Textile	Wuxi Cotton Textile Group Co., Ltd., a wholly-owned subsidiary of Guolian Group, which holds 3.83% of the shares of the Company, formerly known as Wuxi Guolian Textile Group Co., Ltd.* (無錫國聯紡織集團有限公司)
Guolian Environmental	Wuxi Guolian Environmental Energy Group Co., Ltd.* (無錫國聯環保能源集團有限公司), a wholly-owned subsidiary of Guolian Group, which holds 1.53% of the shares of the Company
Wuxi Electric	Wuxi Municipal Electric Power Company* (無錫市地方電力公司), a wholly-owned subsidiary of Guolian Group, which holds 14.03% of the shares of the Company
Minsheng Investment	Wuxi Minsheng Investment Co., Ltd.* (無錫民生投資有限公司), a wholly-owned subsidiary of Wuxi Guolian Financial Investment Group Co., Ltd.* (無錫國聯金融投資集團有限公司), which holds 3.86% of the shares of the Company
Jiangsu Xinfang	Jiangsu Xinfang Industrial Co., Ltd.* (江蘇新紡實業股份有限公司), which holds 1.18% of the shares of the Company
Guolian Investment Management	Wuxi Guolian Investment Management Consultancy Co., Ltd.* (無錫市國聯投資管理諮詢有限公司), a directly and indirectly wholly-owned subsidiary of Guolian Group
Guolian Financial Investment	Wuxi Guolian Financial Investment Group Co., Ltd.* (無錫國聯金融投資集團有限公司), a wholly-owned subsidiary of Guolian Group
Guolian Property	Wuxi Guolian Property Management Co., Ltd.* (無錫國聯物業管理有限責任公司), a wholly-owned subsidiary of Guolian Group
Guolian Capital	Guolian Capital Co., Ltd.* (國聯通寶資本投資有限責任公司), a wholly-owned subsidiary of the Company
Hua Ying Securities	Hua Ying Securities Co., Ltd.* (華英證券有限責任公司), 66.70% of the equity interest of which is held by the Company
Zhonghai Fund	Zhonghai Fund Management Co., Ltd.* (中海基金管理有限公司), 33.409% of the equity interest of which is held by the Company
Surrich International	Surrich International Company Limited, a wholly-owned subsidiary of Guolian Group
Company Law	the Company Law of the PRC
Securities Law	the Securities Law of the PRC

## Section 1 Definitions

Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
CG Code	the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuer in Appendix 10 of the Listing Rules
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
Articles of Association	the articles of association of the Company
Connected Transactions	has the meaning ascribed to it under the Listing Rules
Continuing Connected Transaction(s)	has the meaning ascribed to it under the Listing Rules
Connected Persons	has the meaning ascribed to it under the Listing Rules
Associates	has the meaning ascribed to it under the Listing Rules
Substantial Shareholder(s)	has the meaning ascribed to it under the Listing Rules
Controlling Shareholders	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely, Guolian Group, Guolian Trust, Wuxi Electric, Minsheng Investment, Cotton Textile, Guolian Environmental, Guolian Industrial and Guolian Financial Investment
H Shares	the overseas listed foreign shares issued by the Company of RMB1.00 each, which are listed and traded on The Stock Exchange of Hong Kong Limited (stock code: 01456)
Domestic Shares	ordinary shares issued by the Company of RMB1.00 each, which are subscribed or credited in full in Renminbi
A Shares	domestic listed domestic shares, which are issued domestically and conducted listed trading in domestic stock exchanges, and are ordinary shares that are subscribed, traded and denominated in Renminbi



## Section 1 Definitions

IFRS	include the standards, amendments and interpretations promulgated by International Accounting Standards Board and the International Accounting Standards and Interpretation issued by International Accounting Standards Committee
Wind	Wind Information, an internet big data financial terminal which is intended for use by various institutional users including all kinds of financial investment institutions, research institutions and academic institutions
Choice	An internet big data financial terminal which is intended for use by various institutional users including all kinds of financial investment institutions, research institutions and academic institutions
Reporting Period	the period from 1 January 2016 to 31 December 2016
SAT	State Administration of Taxation of the PRC
GDP	Gross Domestic Products
SAC	the Securities Association of China
Hong Kong or HK	the Hong Kong Special Administrative Region of the PRC
SME	small and medium-sized enterprise(s)
Huaguang Boiler	Wuxi Huaguang Boiler Co., Ltd.* (無錫華光鍋爐股份有限公司), a company incorporated in PRC with limited liabilities, the A Shares of which are listed on Shanghai Stock Exchange (stock code: 600475). Guolian Environmental holds 45.12% of its shares, and is a Controlling Shareholder of it
Shanghai Stock Exchange	the Shanghai Stock Exchange

## Section 1 Definitions

### Technical Terms

Margin Financing and Securities Lending	a collateral-backed operating activity in which securities firms provide clients with monies to buy listed securities or with listed securities for sale
NEEQ	National Equities Exchange and Quotations
Stock Pledged Repurchase Transaction	a transaction in which eligible funds receivers obtain financing from eligible funds givers by pledging the stocks or other securities they hold and agree to return the funds and discharge the pledge some day in the future
Securities Repurchase	a transaction pursuant to the securities repurchase agreement in which a qualified investor sells its securities to a securities firm and agrees to repurchase such securities at an agreed price on a future date
Futures IB	the business activities in which securities firms, as commissioned by futures companies, introduce clients to participate in futures transactions for the futures companies and provide other related services
Xiaorongbao (小融寶)	the small securities-backed financing service provided to the customers by the Company
Margin and Securities Refinancing	an operating activity in which China Securities Finance Corporation Limited provide their own or legally raised funds and securities for securities firms to handle margin financing and securities lending. Margin financing includes capital refinancing and securities refinancing
Direct Investment Business	a business in which the subsidiary for private equity business set up by the securities firm leverages on its own professional advantage to search for and find quality investment projects and make equity or debt investment with their own or raised funds, so as to obtain income from equity interest or debts

## Section 1 Definitions

Shanghai-Hong Kong Stock Connect	a mechanism of inter-connection and inter-working between transactions of Shanghai and Hong Kong stock markets under which the Shanghai Stock Exchange and the Hong Kong Stock Exchange allow investors of the two sides to buy or sell the shares (within a specified limit) listed on the stock exchange of the other side via local securities companies (or brokers)
Shenzhen-Hong Kong Stock Connect	a mechanism of inter-connection and inter-working between transactions of Shenzhen and Hong Kong stock markets under which the Shenzhen Stock Exchange and the Hong Kong Stock Exchange allow investors of the two sides to buy or sell the shares (within a specified limit) listed on the stock exchange of the other side via local securities companies (or brokers)
Collective Asset Management Scheme	an asset management contract entered into with multiple clients by a securities firm, pursuant to which the clients' assets are placed in the custody of commercial banks or in other institutions approved by the CSRC which are qualified to hold client transaction settlement funds, and the securities firm provides asset management services to the clients through designated accounts
Special Asset Management Scheme	an asset management contract entered into by a securities firm with client to specify the investment objectives that specifically cater for the special requirements and asset structure of each individual client and provides asset management service to client through a designated account
Specialized Asset Management Scheme	an 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 the accounts under the client's name
FOF	funds of funds
IPO	the abbreviation for "Initial Public Offering"
SDR	the abbreviation for "Special Drawing Right"

This report is prepared both in Chinese and English. In the event of any discrepancy between the two versions, the Chinese version shall prevail.

## Section 2 Major Risks Warnings

In this annual report, the Company has described in details the risks that the Company may be exposed to in the ordinary course of its business activities, which primarily include market risk, credit risk, concentration risk, operational risk, compliance risk and liquidity risk, etc. The information is set out in “II. Discussion and Analysis of the Board on the Future Development of the Company” in Section 5 of this report.

## Section 3 Company Profile

### I. Basic Information about the Company

#### 1. Company Name

Registered Chinese Name: 國聯證券股份有限公司

Registered English Name: Guolian Securities Co., Ltd.

Short Name in Chinese: 國聯證券

Short Name in English: Guolian Sec

#### 2. Stock Code

01456

#### 3. Legal Representative

Mr. Yao Zhiyong (姚志勇)

#### 4. Registered Capital and Net Capital

Registered Capital: RMB1,902,400,000

Net Capital: RMB8,389 million

#### 5. Qualifications for Businesses in China

Qualification for securities business, qualification for securities business of branches, qualification for foreign stock business, qualification for online trading entrustment business, qualification for entrusted investment management business, member of national inter-bank lending market, qualification for open-end securities investment fund consignment business, qualification for Shanghai Stock Exchange fund expert business, Class-A clearing participant of China Securities Depository and Clearing Corporation Limited, qualification for innovative securities company, book-building participant, qualification for specialized asset management, qualification for collective asset management business, qualification for provision of intermediary introduction business for futures companies, qualification for investment through block trading system as a qualified investor, pilot qualification for direct investment business, qualification as chief agency broker for NEEQ agency share transfer system, qualification for third party escrow services for customer fund in the mode of "one single customer and multiple banks", qualification for membership of the Shanghai Stock Exchange, qualification for membership of the Shenzhen Stock Exchange, qualification for Margin Financing and Securities Lending business, pilot qualification for Margin and Securities Refinancing business, qualification for agency distribution of financial products, qualification for Securities Repurchase trading, qualification as chief agency broker on the NEEQ, qualification for Stock Pledged Repurchase Transaction business, pilot qualification for refinancing business, qualification for marketing making on the NEEQ, authorization for the Hong Kong Stock Connect business on the Shanghai Stock Exchange, qualification for stock options brokerage business and qualification for proprietary trading business on the Shanghai Stock Exchange, pilot qualification for Internet securities business, qualification for comprehensive custody business of private fund, qualification for investment manager entrusted insurance funds, authorization for Hong Kong Stock Connect business under Shenzhen-Hong Kong Stock Connect, qualification of qualified offline investor for IPO.

## Section 3 Company Profile

### 6. Headquarters in China

Registered Address of the Company: No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC; Zip Code: 214000

Office Address of the Company: No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC; Zip Code: 214000

Company Website: [www.glsc.com.cn](http://www.glsc.com.cn)

E-mail: [glsc-ir@glsc.com.cn](mailto:glsc-ir@glsc.com.cn)

### 7. Principal Place of Business in Hong Kong

18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

### 8. General Manager (the President)

Mr. Peng Yanbao (彭焰寶)

### 9. Secretary to the Board

Mr. Li Zhengquan (李正全)

Address: 8th Floor, No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC

Telephone: 86 (510) 82833209

Fax: 86 (510) 82833124

E-mail: [glsc-ir@glsc.com.cn](mailto:glsc-ir@glsc.com.cn)

### 10. Company Secretary

Ms. Lin Fanyu (林凡鈺)

### 11. Authorized Representatives

Mr. Yao Zhiyong (姚志勇), Mr. Peng Yanbao (彭焰寶)

### 12. Compliance Advisor

BOCOM International (Asia) Limited



## Section 3 Company Profile

### 13. Auditors

Domestic: Deloitte Touche Tohmatsu Certified Public Accountants LLP

International: Deloitte Touche Tohmatsu

### 14. Legal Advisor (as to Hong Kong Laws)

Clifford Chance

### 15. Share Registrars

Share Registrar for Domestic Shares: China Securities Depository and Clearing Corporation Limited

Share Registrar for H Shares: Computershare Hong Kong Investor Services Limited

## II. Development History

The Company was established by way of overall alteration of Guolian Securities Co., Ltd.\* (國聯證券有限責任公司). The predecessor of Guolian Securities Co., Ltd.\* (國聯證券有限責任公司) was Wuxi Securities Co., Ltd.\* (無錫證券有限責任公司), which was converted from Wuxi Securities Company\* (無錫市證券公司), an enterprise owned by the whole people (全民所有制企業).

On 8 January 1999, upon the approval from CSRC and upon registration with Wuxi Industrial and Commercial Bureau, Wuxi Securities Company\* (無錫市證券公司) was converted into a limited liability company, and renamed as Wuxi Securities Co., Ltd.\* (無錫證券有限責任公司), the registered capital of which was RMB50 million.

On 29 January 2002, upon the approval from CSRC and upon registration with Wuxi Industrial and Commercial Bureau, the Company was renamed as Guolian Securities Co., Ltd.\* (國聯證券有限責任公司) and the registered capital of the Company was increased from RMB50 million to RMB1 billion.

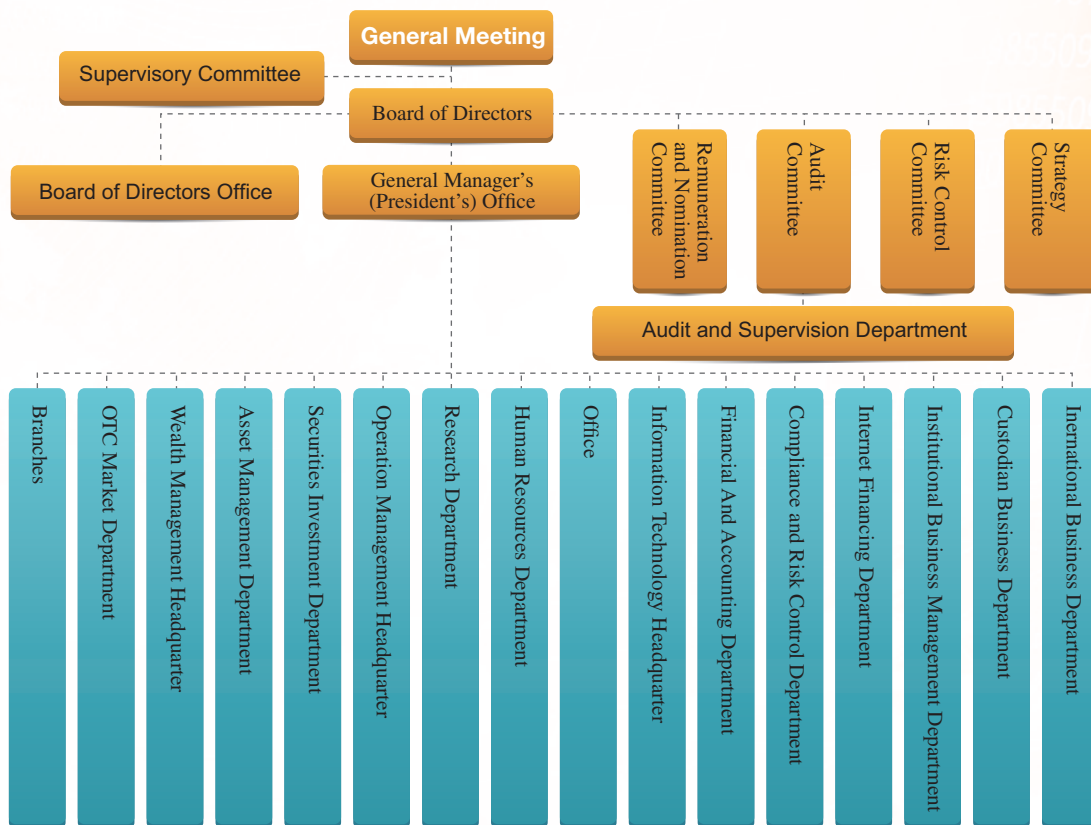
On 26 May 2008, upon the approval from CSRC and upon registration with Wuxi Industrial and Commercial Bureau, Guolian Securities Co., Ltd.\* (國聯證券有限責任公司) was wholly converted into a joint stock company with limited liability, and was renamed as Guolian Securities Co., Ltd.\* (國聯證券股份有限公司). The registered capital of the Company was accordingly increased from RMB1 billion to RMB1.5 billion.

## Section 3 Company Profile

On 6 July 2015, upon the approval from CSRC, the Company completed the initial public offering of its foreign shares (H Shares) and commenced the trading on the Main Board of the HK Stock Exchange on the same date. Upon the completion of the offering, the total share capital of the Company was increased from 1,500,000,000 shares to 1,902,400,000 shares, the registered capital of the Company was increased from RMB1.5 billion to RMB1.9024 billion.

### III. Organizational Structure

The Company has established a sound corporate governance system and internal control system in accordance with the Company Law, the Securities Law, the Listing Rules, other laws and regulations and the Articles of Association of the Company, which consistently regulate the operation of General Meeting, Board of Directors, Supervisory Committee and management to meet the development needs of the Company through the gradual optimization of the organizational structure of the Company. The organizational structure of the Company is as follows:





## Section 3 Company Profile

### IV. Information of Subsidiaries

As at the end of the Reporting Period, the Company has 2 subsidiaries, namely Hua Ying Securities and Guolian Capital, respectively, the details of which are as follows:—

#### 1. Hua Ying Securities

Type	Limited liability company (Sino-foreign joint venture)
Address	Units 01-11, 15th Floor, No.19, Gaolang East Road, New District, Wuxi
Legal Representative	Yao Zhiyong
Registered Capital	RMB800 million
Date of Establishment	20 April 2011
Scope of Business	1. Underwriting and sponsorship of shares (including RMB ordinary shares and foreign invested shares) and bonds (including government bonds and corporate bonds); 2. other activities approved by CSRC. (For any project that is required to be approved under laws, the commencement of business activities are subject to the approval from relevant authorities)
Proportion of Shareholding	66.70%
Contact No.	0510-85201212

#### 2. Guolian Capital

Type	Limited liability company (Legal person wholly-owned)
Address	700, 7th Floor, No. 8 Jinrong One Street, Wuxi
Legal Representative	Li Zhengquan
Registered Capital	RMB200 million
Date of Establishment	18 January 2010
Scope of Business	Applying its own funds for equity investment in domestic enterprises. (For any project that is required to be approved under laws, the commencement of business activities are subject to the approval from relevant authorities)
Proportion of Shareholding	100%
Contact No.	0510-82725172

## Section 3 Company Profile

### V. Branch Offices

As at the end of the Reporting Period, the Company had a total of 10 branch offices, 69 securities branches. The branches of the Company carried on their operation and management activities within their scope of responsibilities.

#### 1. Information of branch offices

Item No.	Branch office name	Address	Date of establishment	Working capital		Contact No.
				(in RMB ten thousands)	Person in charge	
1	Yixing Branch Office	No. 168, Renmin South Road, Yicheng Street, Yixing (宜興市宜城街道人民南路168號)	8 February 2013	2,000	Wu Xinfeng (吳新風)	0510-87911776
2	Beijing Branch Office	1203, 12th Floor, 4th Building, No.9, Shouti South Road, Haidian District, Beijing (北京市海澱區首體南路9號4樓12層1203)	13 March 2014	2,000	Zheng Hong (鄭紅)	010-68798616
3	Shanghai Branch Office	22nd Floor, No. 1088, Yuanshen Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區源深路1088號22層)	11 March 2014	2,000	Mao Jiangqiang (毛江強)	021-38991500
4	Jiangyin Branch Office	4th Floor, No. 105, Daqiao North Road, Jiangyin (江陰市大橋北路105號4樓)	9 May 2014	2,000	Chang Chengli (常呈黎)	0510-80626007
5	Wuxi Branch Office	No. 153, Zhongshan Road, Wuxi (無錫市中山路153號)	27 May 2015	2,000	Liang Yuelel (梁粵雷)	0510-80501580
6	Nanjing Branch Office	8th Floor, No. 342, Zhongshan South Road, Qinhuai District, Nanjing (南京市秦淮區中山南路342號第8層)	18 June 2015	2,000	Cheng Yue (程越)	025-52857988
7	Suzhou Branch Office	Rm. 1805, Building 1, Xingzuo Commercial Plaza, No. 269, Wangdun Road, Industrial Park District, Suzhou (蘇州工業園區旺墩路269號星座商務廣場1幢1805室)	3 November 2015	2,000	Zhang Xin (張鑫)	0512-65031456
8	Shenzhen Branch Office	Rm. 4504, 4403-A (duplex 2 floors) and 4501-A, New World Commercial Centre, No. 6009, Yitian Road, Lianhua Street, Futian District, Shenzhen (深圳市福田區蓮花街道益田路6009號新世界商務中心大廈4504·4403-A(複式2層)和4501-A)	1 March 2016	2,000	Huang Yuying (黃昱穎)	0755-82520168
9	Southwest Branch Office	Rooms 1810 and 1811, 18th Floor, Block 1, No. 365, Jiaozi Avenue, Hi-tech Zone, Chengdu (成都高新區交子大道365號1棟18層1810·1811號)	20 September 2016	-	Zhao Shougang (趙守剛)	028-80592358
10	Hunan Branch Office	Units C1, C2 and C3, 15th Floor, Xinwen Building, No. 469, One Section, Furong Middle Road, Kaifu District, Changsha, Hunan Province (湖南省長沙市開福區芙蓉中路一段469號新聞大廈第15層C1·C2·C3區寫字間)	1 September 2016	-	Ren Fan (任帆)	0731-82533301

## Section 3 Company Profile

### 2. Information of business branches

As at the end of the Reporting Period, the Company owned a total of 69 securities branches located in 12 provinces, autonomous regions and municipalities nationwide, the details of which are as follows:–

Item No.	Region	Branch name	Address	Person in charge
1	Jiangsu Province	Wuxi Xianqian East Street Securities Branch (無錫縣前東街證券營業部)	No. 168, Xianqian East Street, Wuxi (無錫市縣前東街168號)	Zhang Jin (張進)
2	Jiangsu Province	Wuxi Renmin East Road Securities Branch (無錫人民東路證券營業部)	1st Floor, No. 29, Renmin East Road, Wuxi (無錫市人民東路29號一樓)	Gu Li (顧勵)
3	Jiangsu Province	Wuxi Hubin Road Securities Branch (無錫湖濱路證券營業部)	No. 153, Hubin Road, Wuxi (無錫市湖濱路153號)	Wang Longjin (王龍金)
4	Jiangsu Province	Wuxi Liangxi Road Securities Branch (無錫梁溪路證券營業部)	No. 28, Liangxi Road, Binhu District, Wuxi (無錫市濱湖區梁溪路28號)	Shan Tao (單濤)
5	Jiangsu Province	Wuxi Zhongshan Road Securities Branch (無錫中山路證券營業部)	No. 153, Zhongshan Road, Wuxi (無錫市中山路153號)	Li Xin (李昕)
6	Jiangsu Province	Wuxi New District Changjiang North Road Securities Branch (無錫新區長江北路證券營業部)	No. 97, Changjiang North Road, New District, Wuxi (無錫市新區長江北路97號)	Xie Junyan (謝軍燕)
7	Jiangsu Province	Wuxi Luoshe Town Renmin South Road Securities Branch (無錫洛社鎮人民南路證券營業部)	3rd Floor, No. 47, Tianqicheng, Renmin South Road, Luoshe Town, Huishan District, Wuxi (無錫市惠山區洛社鎮人民南路天奇城47號三樓)	Huang Yuyang (黃宇陽)
8	Jiangsu Province	Wuxi Wuai North Road Securities Branch (無錫五愛北路證券營業部)	No. 60, Wuai North Road, Wuxi (無錫市五愛北路60號)	Meng Qingting (孟慶庭)
9	Jiangsu Province	Wuxi Huaxia South Road Securities Branch (無錫華夏南路證券營業部)	11-2500, Huaxia South Road, Xishan District, Wuxi (無錫市錫山區華夏南路11-2500)	Xi Xiaojun (奚孝軍)
10	Jiangsu Province	Wuxi Yuqi Town Huxi Road Securities Branch (無錫玉祁鎮湖西路證券營業部)	No. 170, 172, Huxi Road, Yuqi Town, Wuxi (無錫市玉祁鎮湖西路170、172號)	Chen Hong (陳洪)
11	Jiangsu Province	Wuxi Anzhen Xidong Avenue Securities Branch (無錫安鎮錫東大道證券營業部)	(Shop on 1st Floor), No. 3054, Xidong Avenue, Anzheng, Wuxi (無錫市安鎮錫東大道3054一樓商鋪)	Xi Tingting (席婷婷)
12	Jiangsu Province	Wuxi Meicun Town Xiyi Road Securities Branch (無錫梅村鎮錫義路證券營業部)	1st Floor, Civic Center Building, No. 388, Xiyi Road, Meicun Street, Wuxi (無錫市梅村街道錫義路388號市民中心大樓一層)	Ji Xiaowen (基曉雯)
13	Jiangsu Province	Wuxi Mashan Meiliang Road Securities Branch (無錫馬山梅梁路證券營業部)	No. 212-1, Shengyuan Commercial Street, Meiliang Road South, Mashan, Wuxi (無錫市馬山梅梁路南側聖園商業街212-1號)	Zhou Mengna (周夢娜)
14	Jiangsu Province	Wuxi Donggang Town Jiankang Road Securities Branch (無錫東港鎮健康路證券營業部)	(Shop on 1st Floor) Shop No. 251, Jiankang Road, Donggang Town, Xishan District, Wuxi (無錫錫山區東港鎮健康路251號商鋪一樓商鋪)	Zhang Yu (張瑜)
15	Jiangsu Province	Wuxi Qianqiao Jin'an Road Securities Branch (無錫錢橋金岸路證券營業部)	No. 108, Jin'an Road, Huishan District, Wuxi (無錫惠山區金岸路108號)	Ni Gongyi (倪公一)

## Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
16	Jiangsu Province	Wuxi Shuofang Town Zhengtong Road Securities Branch (無錫碩放鎮政通路證券營業部)	No. 5, Zhengtong Road, Shuofang Street, New District, Wuxi (無錫市新區碩放街道政通路5號)	Fei Xinlong (費新龍)
17	Jiangsu Province	Wuxi Jinrong One Street Securities Branch (無錫金融一街證券營業部)	No. 6, Jinrong One Street, Wuxi (無錫市金融一街6號)	Wang Qian (王倩)
18	Jiangsu Province	Wuxi Wanshun Road Securities Branch (無錫萬順路證券營業部)	82-12, Fourth Block, Wanke City Garden, Binhu District, Wuxi (無錫市濱湖區萬科城市花園四區82-12)	Qin Fengyi (秦烽毅)
19	Jiangsu Province	Yixing Renmin South Road Securities Branch (宜興人民南路證券營業部)	No. 168, Renmin South Road, Yicheng Town, Yixing (宜興市宜城鎮人民南路168號)	Wang Xiaochun (王曉春)
20	Jiangsu Province	Yixing Yangxian East Road Securities Branch (宜興陽羨東路證券營業部)	No. 193, 195, Yangxian East Road, Yicheng Street, Yixing, Jiangsu Province (江蘇省宜興市宜城街道陽羨東路193、195號)	Su Jinghui (蘇靜暉)
21	Jiangsu Province	Yixing Dingshu Town Jiefang Road Securities Branch (宜興丁蜀鎮解放路證券營業部)	No. 21, Block 1, Yuehe Garden, Jiefang Road, Dingshu Town, Yixing (宜興市丁蜀鎮解放路悅和花園1幢21號)	He Qiang (何強)
22	Jiangsu Province	Yixing Zhangzhu Town Taoxi Road Securities Branch (宜興張渚鎮桃溪路證券營業部)	No. 35, 37, Taoxi Road, Zhangzhu Town, Yixing (宜興市張渚鎮桃溪路35、37號)	Wu Di (吳笛)
23	Jiangsu Province	Yixing Guanlin Town Guanxin Street Securities Branch (宜興官林鎮官新街證券營業部)	Rm. 101, 102, Guanxin Street, Guanlin Town, Yixing (宜興市官林鎮官新街101, 102室)	Li Guojun (李國君)
24	Jiangsu Province	Yixing Guangming West Road Securities Branch (宜興光明西路證券營業部)	No. 6 Block, Shenma Community, Yicheng Street, Yixing (宜興市宜城街道神馬小區6號樓)	Yi Bin (夷斌)
25	Jiangsu Province	Yixing Heqiao Town Xiheng Street Securities Branch (宜興和橋鎮西橫街證券營業部)	No. 241, Xiheng Street, Heqiao Town, Yixing (宜興市和橋鎮西橫街241號)	Ou Xiaoping (歐小平)
26	Jiangsu Province	Yixing Jiefang East Road Securities Branch (宜興解放東路證券營業部)	No. 280-17, Jiefang East Road, Yicheng Street, Yixing (宜興市宜城街道解放東路280-17號)	Chen Yimin (陳毅敏)
27	Jiangsu Province	Jiangyin Daqiao North Road Securities Branch (江陰大橋北路證券營業部)	4th Floor, No. 105, Daqiao North Road, Jiangyin (江陰市大橋北路105號(四樓))	Zhang Dongmei (張冬梅)
28	Jiangsu Province	Jiangyin Shengang Road Securities Branch (江陰申港路證券營業部)	No. 349, Shengang Road, Lingang Street, Jiangyin (江陰市臨港街道申港路349號)	Ren Li (任立)
29	Jiangsu Province	Jiangyin Huashi Town Xinsheng Road Securities Branch (江陰華士鎮新生路證券營業部)	No. 168, Xinsheng Road, Huashi Town, Jiangyin (江陰市華士鎮新生路168號)	Yang Jun (楊軍)
30	Jiangsu Province	Jiangyin Zhouzhuang West Main Street Securities Branch (江陰周莊西大街證券營業部)	No. 616, Zhouzhuang West Main Street, Zhouzhuang Town, Jiangyin (江陰市周莊鎮周莊西大街616號)	Yao Yulong (姚玉龍)
31	Jiangsu Province	Nanjing Taiping South Road Securities Branch (南京太平南路證券營業部)	No. 333, Taiping South Road, Qinhuai District, Nanjing (南京市秦淮區太平南路333號)	Geng Chao (耿超)

## Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
32	Jiangsu Province	Nanjing Zhanjiang Road Securities Branch (南京湛江路證券營業部)	No. 59-12, Zhanjiang Road, Gulou District, Nanjing (南京市鼓樓區湛江路59-12號)	Cheng Yue (程越)
33	Jiangsu Province	Suzhou Jiefang West Road Securities Branch (蘇州解放西路證券營業部)	No. 114, 116, Jiefang West Road, Suzhou (蘇州市解放西路114、116號)	Zheng Minzhong (鄭民中)
34	Jiangsu Province	Changzhou Tongjiang Avenue Securities Branch (常州通江大道證券營業部)	No. 555, Tongjiang Avenue, Changzhou (常州市通江大道555號)	Li Yingjie (李穎傑)
35	Jiangsu Province	Changzhou Wuyi Middle Road Securities Branch (常州武宜中路證券營業部)	No. 301, Block 305-1, Xincheng Nandu, Hutang Town, Wujin District, Changzhou (常州市武進區湖塘鎮新城南都305-1幢301號)	Zha Xiaoming (查曉明)
36	Jiangsu Province	Nantong Gongnong Road Securities Branch (南通工農路證券營業部)	No. 486 Gongnong Road, Nantong (南通市工農路486號)	Xu Yongping (徐永平)
37	Jiangsu Province	Xuzhou Zhongshan North Road Securities Branch (徐州市中山北路證券營業部)	Rm. 601, Gold Land International Building, No. 8, Zhongshan North Road, Xuzhou (徐州市中山北路8號金地國際大廈601室)	Fan Jiongwei (范炯璋)
38	Jiangsu Province	Taizhou Jichuan East Road Securities Branch (泰州濟川東路證券營業部)	Rm. 106, No. 99, Jichuan East Road, Hailing District, Taizhou (泰州市海陵區濟川東路99號106室)	Chen Hanyan (陳韓巖)
39	Jiangsu Province	Yancheng Jiefang South Road Securities Branch (鹽城解放南路證券營業部)	Rm. 133, 224-226, 319-321 (3) Yongji Plaza, Jiefang South Road, Yancheng (鹽城市解放南路永基廣場133、224-226、319-321室(3))	Lu Guoping (陸國平)
40	Jiangsu Province	Yangzhou Wenhui West Road Securities Branch (揚州文匯西路證券營業部)	No. 183, Wenhui West Road, Hanjiang District, Yangzhou (揚州市邗江區文匯西路183號)	Chen Jie (陳傑)
41	Jiangsu Province	Lianyungang Cangwu Road Securities Branch (連雲港蒼梧路證券營業部)	No. A1, 1st Floor, Longhe Building, No.6, Cangwu Road, Lianyungang (連雲港市蒼梧路6號龍河大廈1層A1號)	Ji Wei (季威)
42	Jiangsu Province	Huai'an Beijing North Road Securities Branch (淮安北京北路證券營業部)	Rm. 1101, Heyun Building, No. 100, Beijing North Road, Huai'an (淮安市北京北路100號河韻大廈1101室)	Xie Xianlin (謝賢林)
43	Jiangsu Province	Zhenjiang Tanshan Road Securities Branch (鎮江檀山路證券營業部)	Rm. 206, 207, 2nd Floor, Building No. 60, Shenhua International Crown Castle, No. 8, Tanshan Road, Zhenjiang (鎮江市檀山路8號中華國際冠城60幢第2層206、207室)	Zhu Xiangming (朱向明)
44	Jiangsu Province	Danyang Jinling West Road Securities Branch (丹陽金陵西路證券營業部)	No. 188, Jinling West Road, Development District, Danyang (丹陽市開發區金陵西路188號)	Zhang Jianhua (張建華)
45	Jiangsu Province	Haimen Changjiang South Road Securities Branch (海門長江南路證券營業部)	No. 32, Yunjie Longxin Homeland Shop, Haimen (海門市運傑龍馨家園商鋪32號)	Wang Xiaolei (王曉磊)
46	Jiangsu Province	Kunshan Xiaolin Road Securities Branch (昆山蕭林路證券營業部)	34, No. 699, Xiaolin Road, Kunshan (昆山市蕭林路699號34)	Xu Xiaoqiang (徐小強)
47	Jiangsu Province	Changshu Haiyu North Road Securities Branch (常熟海虞北路證券營業部)	101, 127, Zhonghui Commercial Plaza, No. 11, Jinshajiang Road, Changshu (常熟市金沙江路11號中匯商業廣場101、127)	Li Chenjie (李辰傑)

## Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
48	Jiangsu Province	Jiangyin Qingyang Fuqian Road Securities Branch (江陰青陽府前路證券營業部)	No. 101, Fuqian Road, Qingyang Town, Jiangyin (江陰市青陽鎮府前路101號)	Lu Xiaodong (陸曉東)
49	Jiangsu Province	Nanjing Tuanjie Road Securities Branch (南京團結路證券營業部)	Rm. 02, 03, Block 25, Zhonghai Wanjin Garden, No. 8, Tuanjie Road, Pukou District, Nanjing (南京市浦口區團結路8號中海萬錦花園25幢02、03室)	Lin Xin (林鑫)
50	Jiangsu Province	Changzhou North Main Street Securities Branch (常州北大街證券營業部)	Rm. 503-506, Block 8, Yulong Garden, North Main Street, Zhonglou District, Changzhou (常州市鐘樓區北大街玉隆花園8幢503-506室)	Tian Yan (田燕)
51	Beijing	Beijing Shouti South Road Securities Branch (北京首體南路證券營業部)	Rm. 1202, 1203, 4th Building, No. 9, Shouti South Road, Haidian District, Beijing (北京市海澱區首體南路9號4樓1202、1203室)	Jia Li (賈莉)
52	Beijing	Beijing Jiancaicheng West Road Securities Branch (北京建材城西路證券營業部)	No.2 Building, No. 87, Jiancaicheng West Road, Changping District, Beijing (北京市昌平區建材城西路87號2號樓)	Chen Shouxi (陳首熹)
53	Beijing	Beijing Shijingshan Road Securities Branch (北京石景山路證券營業部)	12th Floor, No. 2 Building, No. 18 Yard, Shijingshan Road B Section, Shijingshan District, Beijing (北京市石景山區石景山路乙18號院2號樓12層)	Wang Chao (王超)
54	Beijing	Beijing Chaoyangmen South Street Securities Branch (北京朝陽門南大街證券營業部)	50105, 1st Floor, Galaxy SOHO Centre, No. 2, Nanzhugan Alley, Dongcheng District, Beijing (北京市東城區南竹竿胡同2號銀河搜侯中心1層50105)	Ma Yunxia (馬雲霞)
55	Shanghai	Shanghai Caobao Road Securities Branch (上海漕寶路證券營業部)	No. 38, Caobao Road, Xuhui District, Shanghai (上海市徐匯區漕寶路38號)	Wu Sheng (吳晟)
56	Shanghai	Shanghai Handan Road Securities Branch (上海邯鄲路證券營業部)	No. 98, Handan Road, Shanghai (上海市邯鄲路98號)	Wang Jun (王珺)
57	Shanghai	Shanghai Gangyu Road Securities Branch (上海港俞路證券營業部)	No. 865, Gangyu Road, Qingpu District, Shanghai (上海市青浦區港俞路865號)	Lu Junwei (陸軍巍)
58	Shandong Province	Yantai Yingchun Street Securities Branch (煙台迎春大街證券營業部)	No. 163, Yingchun Street, Laishan District, Yantai (煙台市萊山區迎春大街163號)	Li Chao (李超)
59	Shandong Province	Zibo Zicheng Road Securities Branch (淄博淄城路證券營業部)	No. 573, Zicheng Road, Zichuan District, Zibo, Shandong Province (山東省淄博市淄川區淄城路573號)	Wu Junhe (吳俊河)
60	Guangdong Province	Guangzhou Binjiang East Road Securities Branch (廣州濱江東路證券營業部)	One of Unit 07 of 3rd Floor, No. 207 and Unit 01-05 of 3rd Floor, No. 213, Binjiang East Road, Haizhu District, Guangzhou (廣州市海珠區濱江東路207號三層07之一、213號三層01-05單元)	Zeng Hanping (曾漢平)

## Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
61	Guangdong Province	Shenzhen Haixiu Road Securities Branch (深圳海秀路證券營業部)	1701-1703, 1710-1711, Commercial Building, Xilongwan Garden (N23 Zone), the junction of Jia'an Road and Haixiu Road, Xinan Street, Bao'an District, Shenzhen (深圳市寶安區新安街道甲岸路及海秀路交匯處熙龍灣花園(N23區)商業辦公樓1701-1703、1710-1711)	Yu Lei (于磊)
62	Guangxi Zhuang Autonomous Reigon	Nanning Minzu Avenue Securities Branch (南寧民族大道證券營業部)	4th Floor, Derui Complex Building, No. 143, Minzu Avenue, Qingxiu District, Nanning (南寧市青秀區民族大道143號德瑞大廈綜合樓4樓)	Wang Jian (王劍)
63	Guangxi Zhuang Autonomous Reigon	Guilin Binjiang Road Securities Branch (桂林濱江路證券營業部)	1-10, 1#3rd Floor, Kegao Lijiang 21st Commercial Mansion, No. 16, Binjiang Road, Xiufeng District, Guilin (桂林市秀峰區濱江路16號可高•灘江21號商務辦公樓1#3樓1-10)	Zhang Yi (張異)
64	Zhejiang Province	Hangzhou Zhongshan North Road Securities Branch (杭州中山北路證券營業部)	No. 290, Zhongshan North Road, Xiacheng District, Hangzhou (杭州市下城區中山北路290號)	Ye Ruqi (葉汝驥)
65	Liaoning Province	Dalian Renmin Road Securities Branch (大連人民路證券營業部)	No. E2, 8th Floor, International Finance Tower, No. 15, Renmin Road, Zhongshan District, Dalian, Liaoning Province (遼寧省大連市中山區人民路15號國際金融大廈8層E2號)	Zhu Gang (祝剛)
66	Jiangxi Province	Nanchang Beijing East Road Securities Branch (南昌北京東路證券營業部)	1st-3rd Floor, No. 98, Beijing East Road, Qingshanhu District, Nanchang, Jiangxi Province (江西省南昌市青山湖區北京東路98號第1-3層)	Liu Wei (劉維)
67	Hunan Province	Changsha Furong Middle Road Securities Branch (長沙芙蓉中路證券營業部)	4th Floor, Zhongcai Building, No. 426, Furong Middle Road Third Section, Tianxin District, Changsha (長沙市天心區芙蓉中路三段426號中財大廈四層)	Ren Fan (任飢)
68	Chongqing	Chongqing Wuhong Road Securities Branch (重慶五紅路證券營業部)	3-1, Building No. 7, Chang'an Huadu, No. 60-3, Wuhong Road, Longta Street, Yubei District, Chongqing (重慶市渝北區龍塔街道五紅路60號附3長安華都7幢3-1)	Meng Shuyong (孟書勇)
69	Sichuan Province	Chengdu Jincheng Avenue Securities Branch (成都錦城大道證券營業部)	No. 7, 14th Floor, Block 3, No. 666, Jincheng Avenue, Hi-Tech District, Chengdu (成都市高新區錦城大道666號3幢14層7號)	Zhao Shougang (趙守剛)

## Section 4 Summary of Accounting and Business Data

### I. Principal Accounting Data and Financial Indexes

#### (I) Principal accounting data and financial indexes for the recent three years

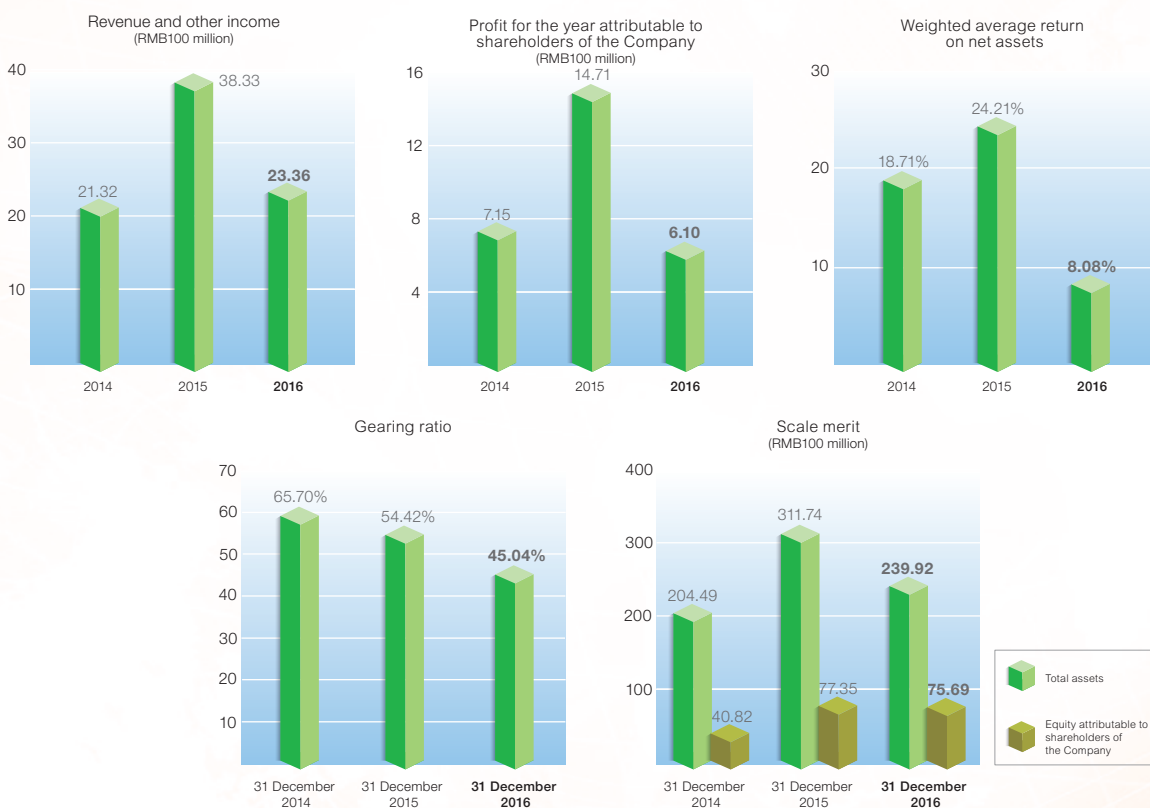
Item	2016	2015	Year-on-Year	
			Growth	2014
<b>Operating results (RMB'000)</b>				
Revenue and other income	2,335,667	3,833,186	-39.07%	2,131,656
Profit before income tax	859,871	1,990,334	-56.80%	963,125
Profit for the year attributable to shareholders of the Company	610,068	1,471,438	-58.54%	714,955
Net cash inflow/outflow from operating activities	2,434,180	-1,361,726	278.76%	-841,291
<b>Earnings per share (RMB/share)</b>				
Basic earnings per share	0.32	0.88	-63.64%	0.48
Diluted earnings per share	0.32	0.88	-63.64%	0.48
<b>Profitability index</b>				
Weighted average returns on net assets (%)	8.08%	24.21%	Decreased by 16.13 percentage points	18.71%



## Section 4 Summary of Accounting and Business Data

Item	31 December 2016	31 December 2015	Year-on-Year Growth	31 December 2014
<b>Scale merit (RMB'000)</b>				
Total assets	23,992,481	31,173,636	-23.04%	20,448,835
Total liabilities	16,096,311	23,144,867	-30.45%	16,100,188
Accounts payable to brokerage clients	9,626,064	13,557,301	-29.00%	7,768,782
Equity attributable to shareholders of the Company	7,569,143	7,735,283	-2.15%	4,082,010
<b>Total share capital ('000 shares)</b>	1,902,400	1,902,400	0.00%	1,500,000
<b>Net asset value per share attributable to shareholders of the Company (RMB/share)</b>				
	3.98	4.07	-2.21%	2.72
<b>Gearing ratio (%)<sup>1</sup></b>	45.04%	54.42%	Decreased by 9.38 percentage points	65.70%

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



## Section 4 Summary of Accounting and Business Data

### (II) Principal accounting data and financial indexes for the recent five years

#### Earnings (RMB'000)

Item	2016	2015	2014	2013	2012
Revenue and other income	2,335,667	3,833,186	2,131,656	1,079,418	772,439
Total expenses	1,562,467	1,991,276	1,184,789	739,874	717,938
Profit before income tax	859,871	1,990,334	963,125	350,710	65,958
Profit for the year					
– attributable to shareholders of the Company	610,068	1,471,438	714,955	269,763	93,920

#### Assets (RMB'000)

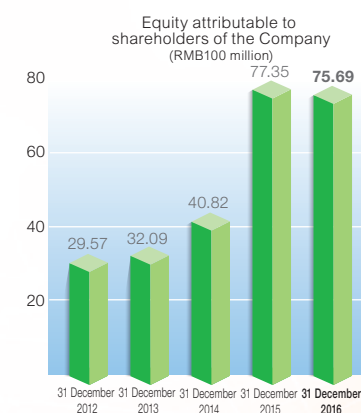
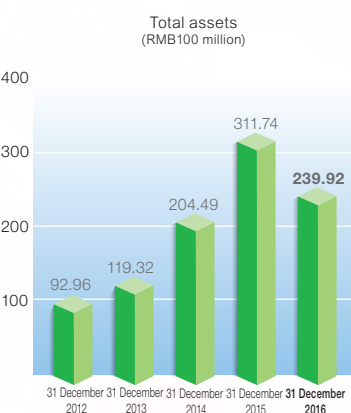
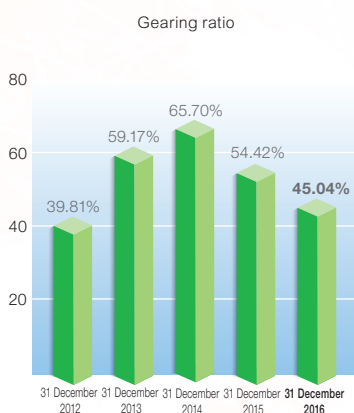
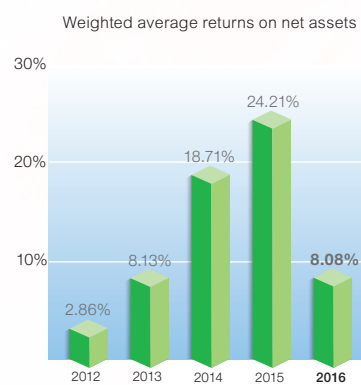
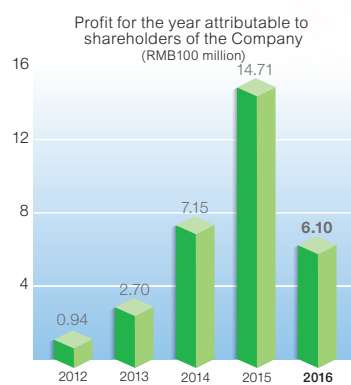
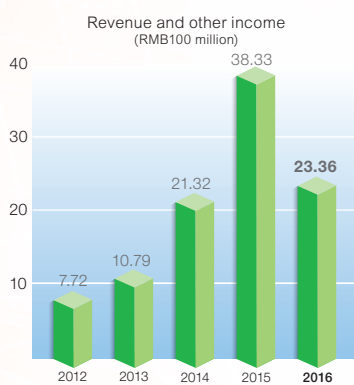
Item	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Total assets	23,992,481	31,173,636	20,448,835	11,932,291	9,295,943
Total liabilities	16,096,311	23,144,867	16,100,188	8,471,772	6,043,499
Accounts payable to brokerage clients	9,626,064	13,557,301	7,768,782	3,455,869	3,892,646
Equity attributable to shareholders of the Company	7,569,143	7,735,283	4,082,010	3,209,305	2,957,477
Total share capital ('000 shares)	1,902,400	1,902,400	1,500,000	1,500,000	1,500,000

## Section 4 Summary of Accounting and Business Data

### Key financial indexes

Item	2016	2015	2014	2013	2012
Basic earnings per share	0.32	0.88	0.48	0.18	0.07
Diluted earnings per share	0.32	0.88	0.48	0.18	0.07
Weighted average returns on net assets (%)	8.08%	24.21%	18.71%	8.13%	2.86%

	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Gearing ratio (%)	45.04%	54.42%	65.70%	59.17%	39.81%
Net asset value per share attributable to shareholders of the Company (RMB/share)	3.98	4.07	2.72	2.14	1.97



## Section 4 Summary of Accounting and Business Data

### II. Differences of Accounting Data under Domestic and Overseas Accounting Standards

The consolidated financial statement prepared by the Company in accordance with the IFRS and the Accounting Standards for Business Enterprises of the PRC show no difference in the net profit in 2016 and 2015 and the net assets as at 31 December 2016 and 31 December 2015.

### III. The Company's Net Capital and Related Risk Control Index

As at 31 December 2016, the net capital of the Company was RMB8,389 million, representing an increase of 11.87% as compared to the net capital of RMB7,499 million as at the end of 2015. During the Reporting Period, the related risk control indexes of the Company's net capital had complied with the regulatory requirements.

Unit: in RMB'000

Item	31 December 2016	31 December 2015	Regulatory standard
Net capital	8,388,624	7,498,634	—
Net assets	7,780,447	7,922,973	—
Risk coverage ratio (%)	511.46	612.69	≥100%
Capital leverage ratio (%)	56.65	49.25	≥ 8%
Liquidity coverage ratio	1,436.32	186.55	≥100%
Net steady fund rate	200.03	181.13	≥100%
Net capital/net assets (%)	107.82	94.64	≥20%
Net capital/liabilities (%)	193.69	118.43	≥8%
Net assets/liabilities (%)	179.64	125.14	≥10%
Proprietary equity securities and securities derivatives/net capital (%)	14.52	17.21	≤100%
Proprietary non-equity securities and securities derivatives/net capital (%)	10.56	6.36	≤500%

## Section 5 Report of the Directors

### I. Board's Discussion and Analysis on the Operation of the Company During the Reporting Period

#### (I) Operation Environment and Market Conditions During the Reporting Period

In 2016, global economic growth slowed down, and changes in geopolitics led to more risks and challenges for the global economy. The economic growth of developed economies was lower than expected, which was one of the important reasons to drag down the global economy. The U.S. continued its recovery with promising employment situation and inflation, but the pace had slowed down. The U.S. Dollars index was up by 3.73%<sup>1</sup> and interest rate was increased only once during the year. Along with Donald Trump being elected as the U.S. President, future development will be expected with more uncertainties. For the Euro zone, the employment situation improved and the quarterly-adjusted unemployment rate dropped from 10.4% in the beginning of the year to 9.6% in December. The Brexit result in the middle of 2016 and the failure in Italy's referendum at the end of the year also escalated the risks of exiting the European Union, which in turn had affected the position of European Union in global politics and finance. Despite Japan adopting a series of monetary and financial measures to stimulate its economy, however, there was no substantial change in its weak economic situation. Among the developing economies, Asian region maintained a sound developing trend, Russia saw a narrowing down negative growth, and the economic situation in Brazil, Venezuela and Argentina were not optimistic.

In 2016, China's overall economy remained stable. The supply-side structural reform had continuously progressed, the supply and demand structure saw improvement, commodity price increased, as well as corporate profitability, and all the macro and micro economic indicators had shown some signs of recovery. Its GDP grew by 6.7% during the year, still at a relatively high level among major economies.

In 2016, China's financial mechanism further improved. For its financial system, new rules relating to new stock were implemented, the NEEQ stratification implementation proposal was implemented and Shenzhen-Hong-Kong Stock Connect was commenced. For financial products, gradual developments in exchangeable bonds, asset-backed securities, convertible bonds, and credit default swaps were seen. For financial regulation, perfecting the application conditions before restructuring



for listing was developed, new "eight bottom lines" (八條底線) for asset management business were promulgated and certain issuance products regulations were tightened.

<sup>1</sup> The relevant data in this section (the operation environment and market conditions during the Reporting Period) all come from Wind Database, and the observation interval was from the end of 2015 to the end of 2016, and the time of extracting data was on 13 February 2017(if the statisticians revise the data subsequently, then there may be a minor deviation with the extracted value).

## Section 5 Report of the Directors

In 2016, despite certain fluctuations, the PRC financial market performed stably overall. Given a fluctuating trend in stock markets, during the year, SSE Composite Index decreased by 12.31% to 3,103.64 points, while Shenzhen Component Index fell by 19.64% to 10,177.14 points, representing a decrease as compared to 2015. One of the main reasons was due to the entire market adjustment under the Circuit Breaker Mechanism at the beginning of the year. After the adjustment in January, the main board market rolled out to a slow bull market while SME and GME were relatively weak. The continuous rise in various commodity prices not only led to a rise in bulk commodity market, it also boosted the relevant segments and individual stocks in stock markets. During the Reporting period, the balance for margin financing and securities lending fell back, with a balance of RMB939.111 billion at the end of the year. A total of 227 companies were initially listed and issued their A shares and the actual proceeds raised amounted to RMB138.796 billion. A total of 793 companies had conducted private placements and actual proceeds raised were RMB1.79 trillion. Due to the rapid development of the NEEQ, the number of companies listed on the NEEQ was 10,163 as at the end of the year, representing a year-on-year growth of 98.15%. Following nearly two years of bull market, the bond market was fluctuated in 2016. Along with the emergence of domestic inflation, tightening financial regulation and changing overseas environment, significant adjustments were made in bond market since late October. The yield of 10-year treasury bonds raised by 27bp in the last two months and 19bp for the year to 3.01%, while the number of credit bond default increased as compared with previous years. The issue of bonds for the year continued its rapid growth. During the Reporting Period, the bonds issued by securities brokers had exceeded RMB5 trillion, representing a year-on-year increase of 46.51%. For foreign exchange market, translation of Renminbi against U.S. Dollars depreciated by 4,434 bp to 6.94 in 2016. With the Renminbi joining the Special Drawing Rights (the SDR) on 1 October, it signified its further leap towards internationalization.

### (II) Overall Operation of the Company

For the whole year of 2016, the Group achieved total of revenue and other income amounting to RMB2,336 million, representing a year-on-year decrease of 39.07%. Total net profit attributable to shareholders of the Company of RMB610 million was achieved, representing a year-on-year decrease of 58.54%. As at 31 December 2016, total assets of the Group was RMB23.992 billion; and net assets attributable to shareholders of the Company was RMB7.569 billion and the weighted average return on net assets was 8.08%.



## Section 5 Report of the Directors

### (III) Analysis of Principal Business

The businesses of the Group can be categorized into five segments, including brokerage business, investment banking business, asset management and investment business, credit transactions business and proprietary trading.

#### 1. Brokerage Business

During the Reporting Period, revenue and other income generated from brokerage business was RMB1,011 million, representing a decrease of 52.82% as compared to 2015.

##### (1) Securities Brokerage

In 2016, the A shares market was sluggish overall. According to the statistics of Wind, total trading volume of shares and funds in Shanghai Stock Exchange and Shenzhen Stock Exchange reached RMB138.5 trillion for the year, with the average daily trading volume in shares and funds of RMB567.7 billion, representing a decrease of 49% as compared to 2015 (2015: RMB1,107.9 billion). During the Reporting Period, due to the intensifying competition in the brokerage business of securities brokers, the industry brokerage commission rate declined by over 20% during the year, posing tremendous challenges to the brokerage business.

During the Reporting Period, facing the complicated market environment and intensifying competition, the Company adhered to the service objective of “focusing on customer experience” and through enriching its service content and improving service quality, it strived to promote the industry competitive edge of brokerage business. During the Reporting Period, through the scientific formulation of business marketing plans and meticulous organization and implementation, the Company enlarged the market share of its brokerage business efficiently. During the year, the Company completed the smooth setting up of 10 securities branches, and further perfected the layout of its branch network, laying a solid foundation for the next business expansion nationwide. Whilst constantly perfecting the product line content, the Company was one of the first batch of companies obtaining the Shenzhen-Hong Kong Stock Connect trading business qualification and responding to customers’ demand actively.

## Section 5 Report of the Directors

During the Reporting Period, the trading volume of shares and funds of the Company amounted to RMB1,701.08 billion and attained a market share of 0.61%, representing an increase of 8.93% as compared to 2015. As at the end of the Reporting Period, our total number of customers was 881,000, representing an increase of 12% as compared to the end of 2015.

Item	2016/ 31 December 2016	2015/ 31 December 2015	Year-on-year increase/decrease
Trading volume of shares and funds (in RMB100 million)	17,010.8	30,470.7	-44%
Number of securities brokerage clients (in '0,000)	88.1	78.5	12%

### (2) Other Services

During the Reporting Period, the Company continued to facilitate the transition from traditional brokerage business to wealth management business and vigorously explored the financial products distribution business to address the diversified wealth management needs of customers. For the Reporting Period, sales volume of financial products amounted to RMB27.089 billion, representing a year-on-year decrease of 41.21%, among which, sales volume of self-developed asset management products amounted to RMB25.381 billion, representing a year-on-year decrease of 37.00%; sales volume of third-party fund products amounted to RMB1.323 billion, representing a year-on-year decrease of 73.62%; and sales volume of third-party trust products amounted to RMB385 million, representing a year-on-year decrease of 43.95%. The Company achieved an accumulated net distribution income of approximately RMB9.82 million, representing a year-on-year decrease of 52.34%.

In order to satisfy the diversified wealth management needs of its customers, the Company continued to provide futures IB business. As at the end of the Reporting Period, the Company had 38 securities branches in total with futures IB business qualifications to conduct futures IB business, and had 1,451 existing customers of commodity futures of the futures IB business and 313 existing accounts of financial futures. During the Reporting Period, commodity futures had 420 newly-opened accounts and 34 newly-opened accounts for financial futures. The IB business generated an income of RMB686,400.



## Section 5 Report of the Directors

The Company obtained the Shanghai-Hong Kong Stock Connect business qualification in October 2014. As at the end of the Reporting Period, the Shanghai-Hong Kong Stock Connect Trading Business of the Company had 7,179 customers. During the Reporting Period, the trading volume of Shanghai-Hong Kong Stock Connect Trading Business was RMB842 million, generating a commission income of RMB505,200. The Company obtained its Shenzhen-Hong Kong Stock Connect trading business qualification in November 2016. As at the end of Reporting Period, the Company had 1,887 customers for its Shenzhen-Hong Kong Stock Connect Trading Business. During the Reporting Period, the trading volume of Shenzhen-Hong Kong Stock Connect Trading Business was RMB16.9508 million, generating a commission income of RMB4,100.

In 2016, by building on the basis of further promoting the investment advisory business by each branch, income from investment advisory business had achieved growth. During the Reporting Period, a total of 128 customers had signed the investment advisory service agreements with the Company, generated an income of RMB887,000, representing a year-on-year increase of 109%.

### 2. Investment Banking Business

The investment banking business of the Company is conducted by its subsidiary, Hua Ying Securities. Meanwhile, the Company provides referral, listing, market-making, private placing services on the NEEQ as chief agency broker. During the Reporting Period, revenue and other income generated from our investment banking business was RMB548 million, representing a growth of 32.92% as compared to 2015.

During the Reporting Period, with prudent judgment, Hua Ying Securities controlled the risks, developed steadily and achieved the best results since its establishment. In 2016, Hua Ying Securities realized an accumulated operating income of RMB391 million, representing a year-on-year increase of 20.04%. Total profit achieved was RMB135 million, representing a year-on-year increase of 23.77%.

#### (1) Equity Financing

During the Reporting Period, Hua Ying Securities completed 2 shares refinancing projects, 2 merger and acquisition cum financing and underwriting projects, 2 shares joint lead-underwriting projects and 1 shares distribution project, underwriting an amount of RMB6.533 billion in total. As at the end of Reporting Period, Hua Ying Securities had 2 initial public offering projects and 2 shares refinancing projects under review by regulatory authorities.

## Section 5 Report of the Directors

### (2) *Debt Financing*

During the Reporting Period, Hua Ying Securities completed 16 bonds lead-underwriting projects and 4 bonds joint lead-underwriting projects (of which three projects were launched in two phases), underwriting an amount of RMB22.200 billion in total. As at the end of the Reporting Period, Hua Ying Securities had 6 corporate bonds projects under review by regulatory authorities or pending issuance.

During the Reporting Period, Hua Ying Securities generated a total net underwriting and sponsorship income of RMB310 million from its shares and bonds issuance, representing a year-on-year growth of 32.75%.

### (3) *Financial Advisory*

During the Reporting Period, Hua Ying Securities completed 39 financial advisory projects, generating a net financial advisory income of RMB31.9628 million, up by 3.93% as compared to last year.

### (4) *NEEQ*

During the Reporting Period, the listing and referral business grew significantly with a continuous growth in the number of NEEQ-listed enterprises. The Company seized the market opportunities and made timely adjustment to its business structure. During the Reporting period, the Company completed a total of 66 listing and referral projects, of which 6 listing projects were approved. In 2016, we ranked No.26 in the market in terms of additional listing and referral projects (source: Choice), up by 17 places over 2015 from the ladder, generated an income from listing and referral business of RMB43.4424 million.

For market-making business, as at the end of Reporting Period, the Company provided market-making services for a total of 60 NEEQ-listed companies (including one delisted enterprise and two that have been changed to contract transfer enterprises), and invested a total of RMB81.50 million in market-making services. During the Reporting Period, the Company achieved an investment revenue of RMB8.6377 million.

For capital market service, during the Reporting Period, the Company assisted 31 enterprises to complete the private offering of shares, with an issuing amount of RMB893 million. In addition, during the Reporting Period, the Company completed 6 merger and acquisition reorganization business projects. The revenue generated from the capital market service was RMB3.9802 million.

For on-going supervision services, as at the end of the Reporting Period, the Company continued to supervise a total of 108 enterprises, generating an income of RMB5.9284 million.



## Section 5 Report of the Directors

### 3. Asset Management and Investment Business

During the Reporting Period, revenue and other income generated from asset management and investment business was RMB138 million, representing a decrease of 17.67% over 2015.

#### (1) *Asset Management*

In 2016, in light of the long-term L-shape trend amidst the economy, risk-free interest rates remained low and shortage of assets with high return continued to ferment, the demand for assets allocation increased significantly. At the same time, the management strived in de-leveraging and eliminating channels with qualifications becoming more stringent, while the assets management industry faced tremendous opportunities and challenges. According to the operation data released by Asset Management Association of China, as of the end of 2016, total size of assets management business of securities and futures business institutions reached approximately RMB51.79 trillion, representing a growth of 36% as compared to the beginning of the year.

During the Reporting Period, by closely integrating with the market situation and customer demand, the Company continued the layout setting for its various capital market businesses and structured financing business, established an elite team, focused on risk control, strengthened active management of business investment research strengths and actively established its branded business line and star-rated wealth management products. The Company achieved greater breakthrough and sound results in the fixed income business, private placement business, private FOF fund and securities-backed financing business. The return of various active management products was over the average market standard, providing a stable return of investment for its clients.

As at the end of Reporting Period, the total size of entrusted asset management business of the Company amounted to RMB23.242 billion, representing a year-on-year growth of 12.08%, among which, the total size of collective asset management scheme amounted to RMB7.840 billion, representing a year-on-year growth of 4.2%. The total size of targeted asset management scheme amounted to RMB14.452 billion, representing a year-on-year growth of 20.31%, and the total size of specialized asset management scheme amounted to RMB950 million. The Company managed a total of 96 asset management products, among which, 36 are collective asset management schemes, 59 are targeted asset management schemes and one is specialized asset management scheme.

## Section 5 Report of the Directors

Project Name	As at the end of 2016			As at the end of 2015		
	Portion	Net Value	Quantity	Portion	Net Value	Quantity
Collective Asset						
Management Scheme	79.09	78.40	36	66.14	75.24	46
Targeted Asset						
Management Scheme	-	144.52	59	-	120.12	51
Specialized Asset						
Management Scheme	9.5	9.5	1	12	12	1

### (2) Direct Investment

The direct investment business of the Group is conducted by Guolian Capital, our wholly-owned subsidiary. During the Reporting Period, in terms of the equity investment business, Guolian Capital successfully invested in 2 enterprises and completed a project investment amount of RMB26 million. During the Reporting Period, it completed the investment exit in 1 enterprise.

During the Reporting Period, Guolian Capital participated in the establishment of Jiaying Baoman Investment Partnership (limited partnership)\* (嘉興寶滿投資合夥企業(有限合夥)) with a subscribed capital contribution of RMB72 million.

As at the end of the Reporting Period, Guolian Capital and the limited partnership fund under its management completed 8 investment projects in aggregate, with total investment amount of RMB90 million. Of which, 2 projects had realized the profit and pulled out and the exit investment cost was RMB19.16 million. It invested a total of 5 enterprises listed on the NEEQ.



## Section 5 Report of the Directors

### 4. Credit Transaction Business

During the Reporting Period, revenue and other income from credit transactions business was RMB432 million, representing a decrease of 19.08% over 2015.

#### (1) *Margin Financing and Securities Lending*

Since June 2015, the credit transactions business of the Company was also affected by the fluctuating securities market and the intensifying competition among securities brokers, however, the overall operation remained stable.

During the Reporting Period, the Company actively explored the VIP service function of the margin financing and securities lending businesses for the purpose of meeting the diversified needs of clients as much as possible. Under the conditions of conforming the compliance requirements, the Company focused on customer experience and kept on optimizing business processing procedure through technological means, with an aim to save customer processing time while improving work efficiency. At the same time of business development, the Company strengthened the management of customers appropriateness and implemented risk management to improve the risk control standard. As at the end of the Reporting Period, after multiple rounds of rapid plunge at the initial stage, the Company had no large-scale close position incident, nor any doubtful debt risk or material complaint and dispute issue.

As at the end of the Reporting Period, the total number of credit accounts of clients was 16,015, representing an increase of 5.98% as compared to 15,111 as at the end of 2015. The total credit amount of margin financing and securities lending was RMB39.952 billion, representing an increase of 7.17% as compared to RMB37.278 billion as at the end of 2015. The balance of margin financing and securities lending was RMB4.379 billion, representing a decrease of 28.83% as compared to RMB6.153 billion as at the end of 2015. As at the end of the Reporting Period, our margin financing and securities lending business market share was 0.47%, representing a slight drop as compared to 0.52% as at the end of 2015, still maintaining the 47th ranking in the industry.

## Section 5 Report of the Directors

### (2) *Securities Repurchase and Security-backed Lending*

During the Reporting Period, securities repurchase business showed an industry contraction trend. In order to concentrate on the development of security-backed lending business, the Company ceased the project acceptance and examination of this business. As at the end of the Reporting Period, our initial transaction amount to be repurchased was nil.

During the Reporting Period, the Company thoroughly explored the financial service demand of listed companies and, strengthened the communication with financing institutions, and continuously optimized project reporting procedures to improve operation efficiency. As at the end of the Reporting Period, the initial transaction amount to be repurchased on the exchanges of securities-backed lending from its own fund was RMB994 million, representing a decrease of 15.02% as compared to the RMB1.170 billion as at the end of 2015. Apart from the bulk securities-backed lending business, in responding actively to the needs of retail customers, the Company kept on pushing forward the small securities-backed lending business (being “Xiaorongbao” (小融寶) business) and improved the transaction methods, and achieved convenient mobile terminal transaction business. As at the end of the Reporting Period, the number of “Xiaorongbao” (小融寶) accounts opened were 7,257, representing a significant increase of 328.39% as compared to 1,694 as at the end of 2015. The size of the financing balance of “Xiaorongbao” (小融寶) had exceeded RMB73.17 million, representing an increase of 120.72% as compared to RMB33.15 million as at the end of 2015.

### (3) *Options*

During the Reporting Period, with an overall stable operation of SSE 50ETF option market, the Company strived to explore the option business and exerted numerous option functions on the basis of strengthening its customer appropriateness management and effective risk control.

As at the end of the Reporting Period, the Company’s accumulated number of contracted accounts opened for options brokerage business on the Shanghai Stock Exchange was 754, representing a growth of 77.83% as compared to 424 as at the end of 2015, ranked No. 36 in the industry in terms of market share for the accumulative accounts opened in options brokerage business in Shanghai Stock Exchange.



## Section 5 Report of the Directors

During the Reporting Period, the Company's accumulated total number of contracts for options brokerage business on the Shanghai Stock Exchange was 470,600, representing a growth of 409.31% as compared to 92,400 in 2015. The cumulative share turnover volume of options brokerage business on the Shanghai Stock Exchange ranked 32nd in the industry, representing a greater growth as compared to 40th in 2015; the commission income generated was RMB1.5884 million, representing a growth of 164.65% as compared to RMB600,200 in 2015.

### 5. Proprietary trading

During the Reporting Period, revenue and other income generated from the proprietary trading was RMB147 million, representing a decrease of 71.54% as compared to 2015.

During the Reporting Period, for equity proprietary trading, the Company adhered to its principle of value investment, closely kept up the pace with the market, enhanced value analysis and mainly focused on exploring investment portfolios with high certainty of performance growth and comparative valuation advantages. At the end of 2015, the Company reduced the position size, which led to a smaller loss when the market tumbled in the beginning of the Reporting Period. Subsequently, in the second and third quarter, a layout was gradually made for undervalued blue-chip stocks and those stocks that have stable performance and high dividends yield, sound results were achieved.

For fixed-income proprietary trading, the Company adopted held-to-maturity measure as its main investment strategy and implemented a flexible operation strategy of mid-to-long term, moderately leveraged and risk controllable approach, mainly focusing on bonds with mid-to-high credit ratings.

## (IV) Financial Statements Analysis

### 1. Analysis on the Profitability During the Reporting Period

During the Reporting Period, the Group faced multiple market challenges and actively pushed forward its innovation and transformation under stringent risk control to improve its overall strength steadily. The Company expanded the network coverage in its brokerage business and achieved a growth in market share. It outperformed the CSI 300 index in the proprietary trading business due to proper risk control and maintained a good growing momentum in its investment banking and asset management capacity.

## Section 5 Report of the Directors

During the Reporting Period, the Group generated revenue and other income of RMB2,335.67 million in total, representing a year-on-year decrease of 39.07%. Net profit attributable to Shareholders of the Company amounted to RMB610.07 million, representing a year-on-year decrease of 58.54%. Earnings per share amounted to RMB0.32, representing a year-on-year decrease of 63.64%. The weighted average return on net assets amounted to 8.08%, representing a year-on-year decrease of 16.13 percentage points.

### 2. Asset Structure and Asset Quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB23,992.48 million, representing a decrease of 23.04% as compared to RMB31,173.64 million as at the end of 2015. Total liabilities amounted to RMB16,096.31 million, representing a decrease of 30.45% as compared to RMB23,144.87 million as at the end of 2015. Equity attributable to shareholders of the Company amounted to RMB7,569.14 million, representing a decrease of 2.15% as compared to RMB7,735.28 million as at the end of 2015.

During the Reporting Period, the asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, total assets of the Group comprised of: cash assets, which amounted to RMB12,615.09 million, representing 52.58% of the total assets, and primarily included cash and bank balances (including cash held for brokerage clients), clearing settlement funds and refundable deposits; margin financing assets, which amounted to RMB6,334.61 million, representing 26.40% of the total assets, and primarily included margin accounts receivable and financial assets held under resale agreements; financial investment assets, which amounted to RMB4,615.77 million, representing 19.24% of the total assets, and primarily included investment in associates and investment in financial assets; and operating assets (such as other property, equipment) amounted to RMB427.01 million, representing 1.78% of the total assets, and primarily included property and equipment, intangible assets. During the Reporting Period, the Group made corresponding impairment provision for loans to other banks, financial assets held under resale agreements, available-for-sale financial assets and other receivables. There was no evidence showing that other assets may be subject to significant impairment.

The liability-asset ratio and operating leverage ratio decreased slightly. The Company strengthened liquidity-management and repaid various due debts. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB6,470.25 million, representing a year-on-year decrease of RMB3,117.32 million or 32.51%. The liability-asset ratio of the Group was 45.04%, representing a decrease of 9.38 percentage points from 54.42% as at the end of 2015 (Note: Liability-asset ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Operating leverage ratio was 1.90 times, representing a decrease of 16.67% from 2.28 times as at the end of 2015 (Note: operating leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to shareholders of the Company).





## Section 5 Report of the Directors

### 3. Financing Channels and Financing Capability

The Company has met its operating capital requirements through debt financing, kept its liquidity and supplemented net capital. Debt financing of the Company included the issuance of short-term financing bonds, subordinated bonds, income certificates and refinancing, interbank borrowings as well as transfer of equity rights in margin financing and securities lending.

In 2016, the newly added accumulated debt financing of the Company amounted to RMB2.100 billion, among which proceeds raised from the private placement of bonds amounted to RMB1.500 billion, accumulated proceeds raised from the issuance of short-term financing bonds amounted to RMB600 million, financing principal amounts from repayment due debts amounted to RMB4.450 billion.

The balance of debt financing not due as of the end of 2016 amounted to RMB3.300 billion, representing a decrease of RMB2.350 billion as compared with that of RMB5.650 billion as of the end of 2015.

Meanwhile, the Company properly arranged financing channels through many ways such as bank credit management, which can meet needs of the Company's funds efficiently with strong security on funds.

### 4. Liquidity Management Information

The Company paid great attention on liquidity management by adhering to the principles of "comprehensiveness, prudence and foreseeability" and focusing on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company established sound management system and contingency measure for liquidity risk. The Company will prepare monthly liquidity monitoring statement. Currently, the management system for liquidity indicators is scientific and reasonable, and meets the requirements of liquidity management. The liquidity monitoring index of the Company in each month throughout 2016 had complied with the regulatory requirements. During the Reporting Period, the overall liquidity of the Company was sufficient.

### 5. Cash Flows

As the Group's cash outflow generated from the financing activities and investing activities in the current year is more than the cash inflow from operating activities, the net increase in cash and cash equivalents was RMB-1,135.24 million.

## Section 5 Report of the Directors

Net cash flows from operating activities in 2016 was RMB2,434.18 million, representing a year-on-year increase of RMB3,795.91 million as compared with RMB-1,361.73 million for the corresponding period in 2015. Net cash flows from investing activities in 2016 was RMB-121.51 million, representing a year-on-year increase of RMB510.69 million as compared with RMB-632.20 million for the corresponding period in 2015. Net cash flows from financing activities in 2016 was RMB-3,447.91 million, representing a year-on-year decrease of RMB8,724.38 million as compared with RMB5,276.47 million for the corresponding period in 2015. Net increase in cash and cash equivalents in 2016 was RMB-1,135.24 million, representing a year-on-year decrease of RMB4,417.79 million as compared with RMB3,282.55 million for the corresponding period of 2015.

### 6. Analysis of Financial Data

#### (1) Items under income statement

##### Summary of financial results

During the Reporting Period, the Group's profit before income tax amounted to RMB859.87 million, representing a year-on-year decrease of 56.80%. The key financial results are as follows:

Unit: in RMB million

Items	2016	2015	Increase/ decrease	Growth rate year-on-year
<b>Revenue</b>				
Commission and fee income	1,316.95	2,235.53	-918.58	-41.09%
Interest income	768.00	925.10	-157.10	-16.98%
Net investment gains	240.61	665.95	-425.34	-63.87%
Other income	10.11	6.60	3.51	53.18%
<b>Total revenue and other income</b>	<b>2,335.67</b>	<b>3,833.18</b>	<b>-1,497.51</b>	<b>-39.07%</b>
Total expenses	1,562.47	1,991.28	-428.81	-21.53%
Profit before income tax	859.87	1,990.33	-1,130.46	-56.80%
Income tax expense	216.26	492.05	-275.79	-56.05%
Profit for the year	643.61	1,498.29	-854.68	-57.04%
Net profit attributable to shareholders of the Company	610.07	1,471.44	-861.37	-58.54%

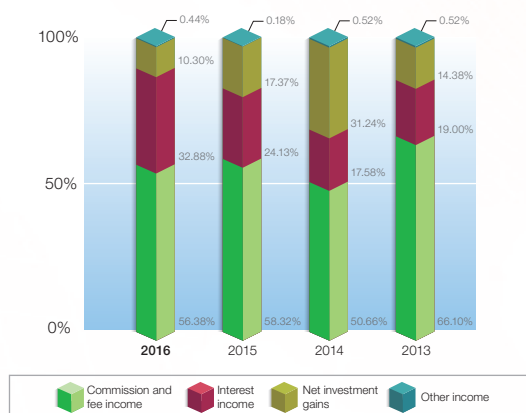
## Section 5 Report of the Directors

### Revenue structure

During the Reporting Period, total revenue and other income of the Group amounted to RMB2,335.67 million, representing a year-on-year decrease of 39.07%, among which, 56.38% was generated from commission and fee income, representing a year-on-year decrease of 1.94%; 32.88% was generated from interest income, representing a year-on-year increase of 8.75% and 10.30% was generated from net investment gains, representing a year-on-year decrease of 7.07%. The revenue structure of the Group in the past four years was as follows:

Items	2016	2015	2014	2013
Commission and fee income	56.38%	58.32%	50.66%	66.10%
Interest income	32.88%	24.13%	17.58%	19.00%
Net investment gains	10.30%	17.37%	31.24%	14.38%
Other income	0.44%	0.18%	0.52%	0.52%
Total	100.00%	100.00%	100.00%	100.00%

The bar chart below shows the structure comparison:



## Section 5 Report of the Directors

From the changes in revenue structure, the Company speeded up the pace of internet transformation, continued to enhance its profitability, improved revenue structure and profit potential to vigorously promote the comprehensive business transformation and innovative development. The brokerage business of the Company which derives its income mainly from commission and fee income contributed 56.38% of the profit, representing a downward trend. The Company strengthened the management of its own funds and business innovation, and the capital intermediary business which derives its income mainly from interest income contributed 32.88% of the profit, increasing year by year. At the same time, by adhering to the consistent principles of value investment, the profit contributed by net investment income for the year was 10.30%.

### *Commission and fee income*

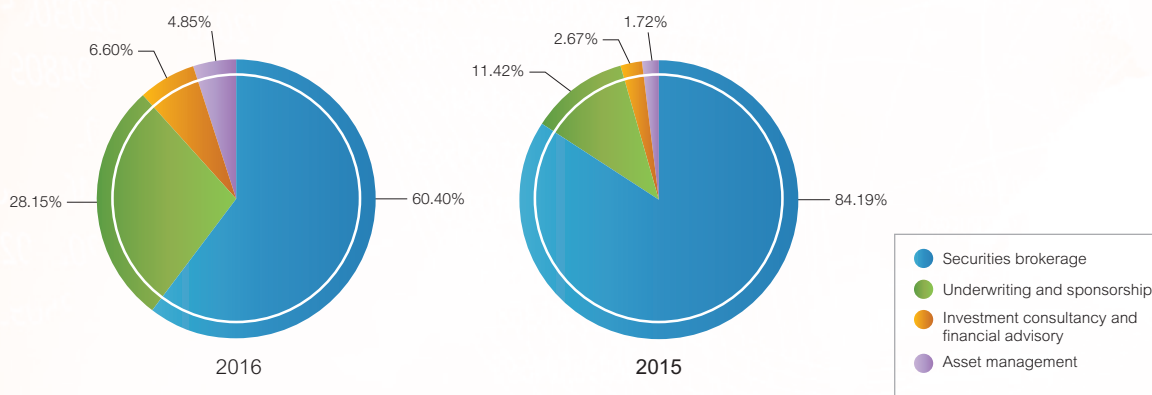
During the Reporting Period, the Group's commission and fee income consists of the followings:

Unit: in RMB million

Items	2016	2015	Increase/ decrease	Growth rate year-on-year
Commission and fee income				
Securities brokerage	795.43	1,881.99	-1,086.56	-57.73%
Underwriting and sponsorship	370.67	255.32	115.35	45.18%
Investment consultancy and financial advisory	86.94	59.83	27.11	45.31%
Asset management	63.91	38.39	25.52	66.48%
Total commission and fee income	1,316.95	2,235.53	-918.58	-41.09%
Commission and fee expenses	281.59	436.74	-155.15	-35.52%
Net commission and fee income	1,035.36	1,798.79	-763.43	-42.44%

## Section 5 Report of the Directors

The Group's commission and fee income consists of:



During the Reporting Period, net commission and fee income of the Group amounted to RMB1,035.36 million, representing a year-on-year decrease of 42.44%. The decrease was primarily attributable to the decrease in commission and fee income generated from securities brokerage business.

The securities market was less active in 2016, and as a result, the daily transaction volume of securities and funds in broad market decreased significantly. At the same time, with intensifying market competition, industry commission rate further declined. Affected by multiple factors, the fee and commission income generated from securities brokerage business decreased by RMB1,086.56 million, representing a decrease of 57.73%.

Underwriting and sponsorship income generated from investment banking business achieved a breakthrough in equity financing business, with a new high recorded in its operation results. Underwriting scale increased significantly by 91.52%, with 27 lead-underwriting and joint-underwriting projects were completed. Annual underwriting and sponsorship income generated from investment banking business increased by RMB115.35 million, representing a year-on-year increase of 45.18%.

Investment advisory and financial consultant income increased by RMB27.11 million, representing a year-on-year increase of 45.31%, primarily attributable to the continuous increase of enterprises listed on the NEEQ as a result of the Company grasped the opportunities arising from the development of the NEEQ and timely adjusted its business structure.

As a result of the Company's active brand building effects through close integration of market conditions and customers' needs, total entrusted assets under management amounted to RMB23.242 billion, representing a year-on-year increase of 12.08%. Asset management income increased by RMB25.52 million, representing a year-on-year increase of 66.48%.

## Section 5 Report of the Directors

### Interest income

During the Reporting Period, net interest income of the Group amounted to RMB466.51 million, representing a year-on-year increase of 0.32%. The Group's net interest income for 2016 consists of the following:

Unit: in RMB million

Items	2016	2015	Increase/ decrease	Growth rate year-on-year
Interest income				
Bank deposits	315.25	377.26	-62.01	-16.44%
Financial assets held under resale agreements	91.31	82.65	8.66	10.48%
Margin financing and securities lending	361.44	465.19	-103.75	-22.30%
Total interest income	768.00	925.10	-157.10	-16.98%
Interest expenses	301.49	460.08	-158.59	-34.47%
Net interest income	466.51	465.02	1.49	0.32%

Interest income from bank deposits decreased by RMB62.01 million, representing a year-on-year decrease of 16.44%, which was primarily attributable to market downturn and the decline in the size of client margin deposit.

Interest income from financial assets held under resale agreements increased by RMB8.66 million, representing a year-on-year increase of 10.48%, primarily attributable to the increase in size of bonds repurchased business.

Interest income from margin financing and securities lending decreased by RMB103.75 million, representing a year-on-year decrease of 22.30%, primarily attributable to the decrease in size of margin financing and securities lending business.

Interest expenses decreased by RMB158.59 million, representing a year-on-year decrease of 34.47%, primarily attributable to the strengthened liquidity management and repayment of due debt by the Company.

## Section 5 Report of the Directors

### Net investment gains

During the Reporting Period, the Company adhered to principles of value investment and effective risk control. The net investment gains of the Group amounted to RMB240.61 million, representing a year-on-year decrease of 63.87%. The Group's net investment gains for 2016 consist of the following:

Unit: in RMB million

Items	2016	2015	Changes	Growth rate year-on-year
Realized gain from disposal of available-for-sale financial assets	125.61	265.27	-139.66	-52.65%
Dividends and interest income from available-for-sale financial assets	16.85	40.33	-23.48	-58.22%
Realized gain from disposal of financial assets at fair value through profit or loss	52.51	568.50	-515.99	-90.76%
Dividends distributed to interests holders of the consolidated structured entities	-123.72	-252.63	128.91	-51.03%
Dividends and interest income from financial assets at fair value through profit or loss	148.08	182.72	-34.64	-18.96%
Realized gain from disposal of held-to-maturity financial assets	0.00	0.15	-0.15	-100.00%
Interest income from held-to-maturity financial assets	0.00	0.16	-0.16	-100.00%
Net realized profit or loss from derivative financial instruments	9.26	23.95	-14.69	-61.34%
Unrealized fair value change of financial instruments at fair value through profit or loss				
– Financial assets at fair value through profit or loss	-68.48	-105.30	36.82	-34.97%
– Derivative financial instruments	0.08	2.16	-2.08	-96.30%
– Financial liabilities at fair value through profit or loss	80.42	-59.36	139.78	-235.48%
<b>Total</b>	<b>240.61</b>	<b>665.95</b>	<b>-425.34</b>	<b>-63.87%</b>

## Section 5 Report of the Directors

### Operating Expenses

During the Reporting Period, operating expenses of the Group (excluding fee and commission expenses and interest expenses) amounted to RMB979.38 million, representing a year-on-year decrease of 10.51%. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Items	2016	2015	Changes	Growth rate year-on-year
Operating expenses				
Staff costs	567.79	563.09	4.70	0.83%
Depreciation and amortization	53.77	44.01	9.76	22.18%
Other operating expenses	257.05	432.16	-175.11	-40.52%
Impairment losses	100.77	55.20	45.57	82.55%
<b>Total</b>	<b>979.38</b>	<b>1,094.46</b>	<b>-115.08</b>	<b>-10.51%</b>

Staff costs increased by RMB4.70 million, representing a year-on-year increase of 0.83%;

The additional property, equipment and intangible assets, depreciation and amortization of the Company increased by RMB9.76 million, representing a year-on-year increase of 22.18%;

Under the impact of "B2V Reform" in the securities industry and year-on-year revenue decrease, there was a significant decrease in business tax and surcharge, meanwhile attributed to the effective control of marketing expenses and operating charges of the Company, other operating expenses decreased by RMB175.11 million, representing a year-on-year decrease of 40.52%;



## Section 5 Report of the Directors

Impairment losses amounted to RMB100.77 million, representing a year-on-year increase of RMB45.57 million, details of which are as follows:

Unit: in RMB million

Items	2016	2015	Changes	Growth rate year-on-year
Impairment losses				
Margin accounts receivable	-5.21	18.31	-23.52	-128.45%
Available-for-sale financial assets	109.13	30.99	78.14	252.15%
Financial assets held under resale agreements	0.48	2.72	-2.24	-82.35%
Accounts receivables	-3.63	3.18	-6.81	-214.15%
<b>Total</b>	<b>100.77</b>	<b>55.20</b>	<b>45.57</b>	<b>82.55%</b>

Impairment losses on assets primarily included provision for impairment of available-for-sale financial assets. Under the impact of the conditions of the securities market, the impairment provision was made for assets where signs of impairment were detected pursuant to the requirements of the accounting policies.

## Section 5 Report of the Directors

### (2) Assets Information

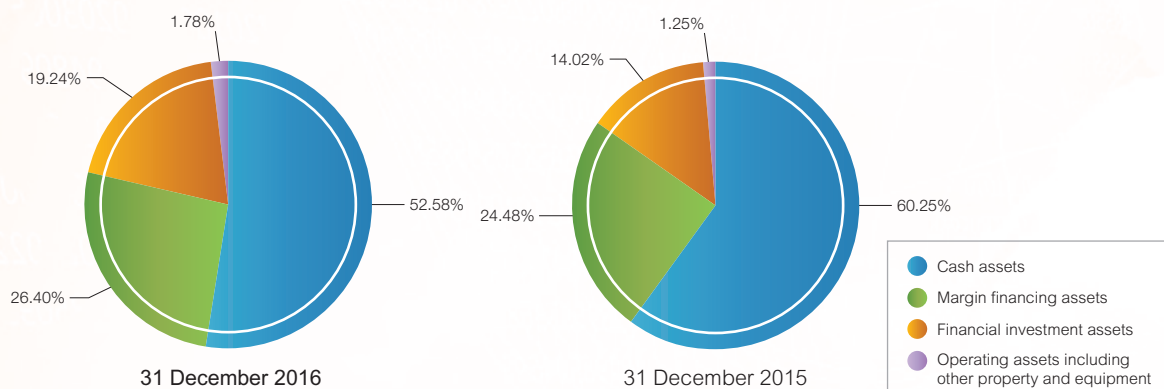
As at the end of the Reporting Period, total assets of the Group amounted to RMB23,992.48 million, representing a year-on-year decrease of 23.04%, among which, cash assets amounted to RMB12,615.09 million, representing a year-on-year decrease of 32.83%, margin financing assets amounted to RMB6,334.61 million, representing a year-on-year decrease of 16.99%, financial investment assets amounted to RMB4,615.77 million, representing a year-on-year increase of 5.62%, and operating assets (including other property and equipment) amounted to RMB427.01 million, representing a year-on-year increase of 9.31%. Changes in the total major assets of the Group are as follows:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
Total assets				
Cash assets	12,615.09	18,781.39	-6,166.30	-32.83%
Margin financing assets	6,334.61	7,631.57	-1,296.96	-16.99%
Financial investment assets	4,615.77	4,370.03	245.74	5.62%
Operating assets including other property and equipment	427.01	390.65	36.36	9.31%
<b>Total</b>	<b>23,992.48</b>	<b>31,173.64</b>	<b>-7,181.16</b>	<b>-23.04%</b>

## Section 5 Report of the Directors

Total assets of the Group consist of:



### Cash assets

As at the end of Reporting Period, cash assets of the Group decreased by RMB6,166.30 million or 32.83%, representing 52.58% of the Group's total assets. The Group's cash assets consist of the following:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Cash assets</b>				
Cash and bank balances (including cash held for brokerage clients)	9,238.60	14,293.51	-5,054.91	-35.37%
Clearing settlement funds	3,296.27	4,359.73	-1,063.46	-24.39%
Refundable deposits	80.22	128.15	-47.93	-37.40%
<b>Total</b>	<b>12,615.09</b>	<b>18,781.39</b>	<b>-6,166.30</b>	<b>-32.83%</b>

## Section 5 Report of the Directors

Changes in cash assets primarily reflected in cash and bank balances (including cash held for brokerage clients). Cash and bank balances (including cash held for brokerage clients) amounted to RMB9,238.60 million, representing a year-on-year decrease of 35.37%. The decrease was primarily attributable to the decrease in client deposits arising from weak market sentiment and low market activeness during the year.

### *Margin financing assets*

As at the end of the Reporting Period, margin financing assets of the Group decreased by RMB1,296.96 million year on year or 16.99%, representing 26.40% of the Group's total assets. The Group's margin financing assets consist of the followings:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Margin financing assets</b>				
Margin accounts receivable	4,353.21	6,085.35	-1,732.14	-28.46%
Financial assets held under resale agreements	1,981.40	1,546.22	435.18	28.14%
<b>Total</b>	<b>6,334.61</b>	<b>7,631.57</b>	<b>-1,296.96</b>	<b>-16.99%</b>

Primarily attributable to the decrease of scale of margin financing and securities lending business of the Company, margin accounts receivable amounted to RMB4,353.21 million, representing a year-on-year decrease of 28.46%;

Primarily attributable to the increasing scale of bond repurchase business of the Company, financial assets held under resale agreements amounted to RMB1,981.40 million, representing a year-on-year increase of 28.14%;

## Section 5 Report of the Directors

### Financial investment assets

As at the end of Reporting Period, financial investment assets of the Group increased by RMB245.74 million year-on-year or 5.62%, representing 19.24% of the Group's total assets. The following table set forth the composition of the Group's financial investment assets:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Financial investment assets</b>				
Investment in associates	219.26	203.50	15.76	7.74%
Available-for-sale financial assets	1,664.02	1,572.43	91.59	5.82%
Financial assets at fair value through profit or loss	2,732.49	2,594.05	138.44	5.34%
Derivative financial assets	0.00	0.06	-0.06	-100.00%
<b>Total</b>	<b>4,615.77</b>	<b>4,370.04</b>	<b>245.73</b>	<b>5.62%</b>

As at the end of the Reporting Period, the available-for-sale financial assets of the Group increased by RMB91.59 million year-on-year or 5.82%, representing 6.94% of the Group's total assets. The following table set forth the composition of the Group's available-for-sale financial assets:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Available-for-sale financial assets</b>				
Equity securities	549.95	590.84	-40.89	-6.92%
Collective asset management schemes	267.12	58.33	208.79	357.95%
Investment funds	98.53	80.56	17.97	22.31%
Debt Instrument	72.31	0.00	72.31	100%
Other investments	676.11	842.70	-166.59	-19.77%
<b>Total</b>	<b>1,664.02</b>	<b>1,572.43</b>	<b>91.59</b>	<b>5.82%</b>

## Section 5 Report of the Directors

As at the end of the Reporting Period, financial assets at fair value through profit or loss of the Group increased by RMB138.44 million year-on-year or 5.34%, representing 11.39% of the Group's total assets. The following table set forth the composition of the Group's financial assets held for trading:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Financial assets at fair value through profit or loss</b>				
Debt securities	2,386.48	1,987.48	399.00	20.08%
Equity securities	166.63	328.78	-162.15	-49.32%
Investment funds	129.19	257.79	-128.60	-49.89%
Asset-backed securities	50.19	20.00	30.19	150.95%
<b>Total</b>	<b>2,732.49</b>	<b>2,594.05</b>	<b>138.44</b>	<b>5.34%</b>

### *Operating assets including other property and equipment*

As at the end of the Reporting Period, operating assets including other property and equipment of the Group amounted to RMB427.01 million, representing a year-on-year increase of RMB36.36 million or 9.31%, which accounted for 1.78% of the Group's total assets. The following table sets forth the composition of the Group's operating assets including other property and equipment as at the date indicated:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Operating assets including other property and equipment</b>				
Property, plant and equipment	105.57	103.64	1.93	1.86%
Goodwill	-	-	-	-
Intangible assets	27.63	28.58	-0.95	-3.32%
Deferred income tax assets	8.61	0.09	8.52	9466.67%
Other current assets and other non-current assets	285.20	258.34	26.86	10.40%
<b>Total</b>	<b>427.01</b>	<b>390.65</b>	<b>36.36</b>	<b>9.31%</b>

## Section 5 Report of the Directors

### (3) Liabilities

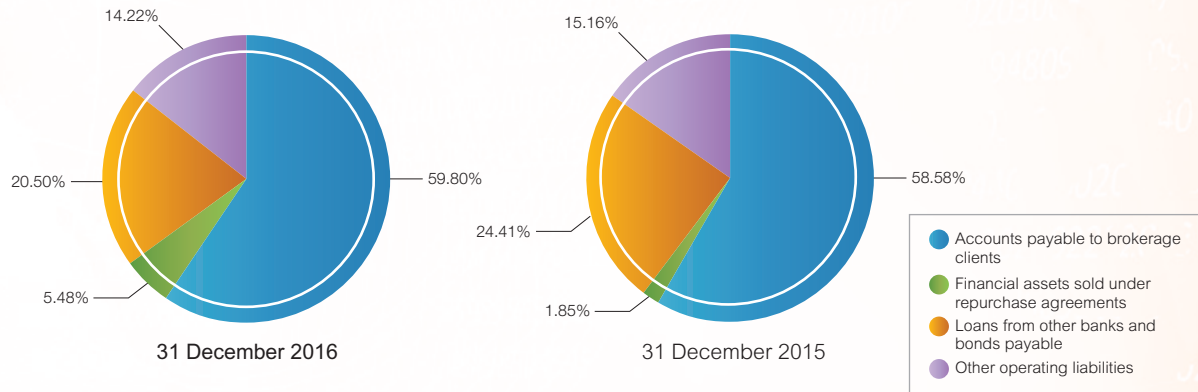
As at the end of the Reporting Period, total liabilities of the Group amounted to RMB16,096.31 million, representing a year-on-year decrease of RMB7,048.56 million or 30.45%, of which accounts payable to brokerage clients amounted to RMB9,626.06 million, representing a year-on-year decrease of 29.00%; financial assets sold under repurchase agreements amounted to RMB882.24 million, representing a year-on-year increase of 106.13%; loans from other banks and bonds payable amounted to RMB3,300.00 million, representing a year-on-year decrease of 41.59%; other operating liabilities amounted to RMB2,287.76 million, representing a year-on-year decrease of 34.81%. Major changes in the Group's total liabilities are as follows:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Liabilities</b>				
Accounts payable to brokerage clients	9,626.06	13,557.30	-3,931.24	-29.00%
Financial assets sold under repurchase agreements	882.24	428.00	454.24	106.13%
Loans from other banks and bonds payable	3,300.00	5,650.00	-2,350.00	-41.59%
Derivative financial liabilities	0.24	0.02	0.22	1,100.00%
Other operating liabilities	2,287.77	3,509.55	-1,221.78	-34.81%
<b>Total</b>	<b>16,096.31</b>	<b>23,144.87</b>	<b>-7,048.56</b>	<b>-30.45%</b>

## Section 5 Report of the Directors

The composition of the Group's total liabilities:



*Loans from other banks and bonds payable*

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Loans from other banks and bonds payable</b>				
Bonds in issue	3,300.00	5,650.00	-2,350.00	-41.59%
<b>Total</b>	<b>3,300.00</b>	<b>5,650.00</b>	<b>-2,350.00</b>	<b>-41.59%</b>

Bonds in issue decreased by RMB2,350.00 million year-on-year, attributable to the repayment of due indebtedness by the company.



## Section 5 Report of the Directors

### Other operating liabilities

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
<b>Other operating liabilities</b>				
Salaries, bonuses, allowances and benefits payable	255.26	227.28	27.98	12.31%
Other current liabilities	245.03	457.93	-212.90	-46.49%
Deferred income tax liabilities	0	30.19	-30.19	-100.00%
Financial liabilities at fair value through profit or loss	1,787.48	2,794.15	-1,006.67	-36.03%
<b>Total</b>	<b>2,287.77</b>	<b>3,509.55</b>	<b>-1,221.78</b>	<b>-34.81%</b>

Salaries, bonuses, allowances and benefits payable increased by RMB27.98 million or 12.31% year-on-year;

Other current liabilities decreased by RMB212.90 million or 46.49% year-on-year, attributable to the decrease in interests payable as a result of repayment of due indebtedness;

Deferred income tax liabilities decreased by RMB30.19 million or 100.00% year-on-year;

Financial liabilities at fair value through profit or loss decreased by RMB1,006.67 million or 36.03% year-on-year.

## Section 5 Report of the Directors

### (4) Equity

Subject to the impact of dividend distribution in 2015, as at the end of the Reporting Period, total equity of the Group amounted to RMB7,896.17 million, representing a year-on-year decrease of 1.65%. The following table sets forth the composition of the Group's equity as at the date indicated:

Unit: in RMB million

Items	31 December 2016	31 December 2015	Changes	Growth rate year-on-year
Share capital	1,902.40	1,902.40	0.00	0.00%
Share premium	2,178.48	2,178.48	0.00	0.00%
Reserves	1,672.23	1,522.57	149.66	9.83%
Retained earnings	1,816.03	2,131.83	-315.80	-14.81%
Non-controlling interests	327.03	293.49	33.54	11.43%
<b>Total</b>	<b>7,896.17</b>	<b>8,028.77</b>	<b>-132.60</b>	<b>-1.65%</b>

### (5) 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) assets management and investment, (iv) credit transaction, and (v) proprietary trading. We also report financial results for these five business lines and divide these primary business lines into six business segments: (i) securities brokerage, (ii) credit transaction, (iii) investment banking, (iv) proprietary trading, (v) assets management and investment; and (vi) others. We report financial results in terms of these six business segments.

## Section 5 Report of the Directors

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

	2016		2015	
	(in RMB million)	Percentage (%)	(in RMB million)	Percentage (%)
Securities brokerage	1,011.02	41.74	2,142.99	53.82
Credit transactions	432.48	17.85	534.49	13.42
Investment banking	547.87	22.62	412.18	10.35
Proprietary trading	147.15	6.07	516.99	12.98
Asset management and investment	138.00	5.70	167.63	4.21
Others	157.65	6.51	213.83	5.37
Inter-segment eliminations	-11.83	-0.49	-6.50	-0.15
<b>Total</b>	<b>2,422.34</b>	<b>100.00</b>	<b>3,981.61</b>	<b>100.00</b>

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

	2016		2015	
	(in RMB million)	Percentage (%)	(in RMB million)	Percentage (%)
Securities brokerage	-589.09	37.70	-883.89	44.39
Credit transactions	-256.49	16.42	-268.84	13.50
Investment banking	-395.31	25.30	-271.08	13.61
Proprietary trading	-75.36	4.82	-77.29	3.88
Asset management and investment	-37.53	2.40	-43.18	2.17
Others	-220.52	14.12	-452.42	22.72
Inter-segment eliminations	11.83	-0.76	5.42	-0.27
<b>Total</b>	<b>-1,562.47</b>	<b>100.00</b>	<b>-1,991.28</b>	<b>100.00</b>

## Section 5 Report of the Directors

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 intersegment revenue) minus segment expenses (including inter-segment expenses).

	2016		2015	
	(in RMB million)	Percentage (%)	(in RMB million)	Percentage (%)
Securities brokerage	421.93	49.07	1,259.10	63.26
Credit transactions	175.99	20.47	265.65	13.35
Investment banking	152.56	17.74	141.10	7.09
Proprietary trading	71.79	8.35	439.70	22.09
Asset management and investment	100.47	11.68	124.45	6.25
Others	-62.87	-7.31	-238.59	-11.99
Inter-segment eliminations	0.00	0.00	-1.08	-0.05
<b>Total</b>	<b>859.87</b>	<b>100.00</b>	<b>1,990.33</b>	<b>100.00</b>

### 7. Contingent Liabilities, Capital Commitments and Pledge of Capital

There was no contingent liabilities, capital commitments or pledge of capital during the Reporting Period.

## Section 5 Report of the Directors

### (V) Changes in Branches and Subsidiaries of the Company and Their Impact on Results

#### 1. Branches

##### (1) Establishment and Changes of Branches

##### 1 Newly-established Securities Branches

During the Reporting Period, the Company set up 4 new securities branches pursuant to the Reply Concerning Approval of Opening of Four Securities Branches in Jiangsu by Guolian Securities Co., Ltd. (Su Zheng Jian Ji Gou Zi [2016] No. 187) (《關於核准國聯證券股份有限公司在江蘇設立4家證券營業部的批復》(蘇證監機構字[2016] 187號文)) from Jiangsu Securities Regulatory Bureau, 3 new branch offices pursuant to the Reply Concerning Approval of Opening of 5 Branches in Jiangsu and Other Places by Guolian Securities Co., Ltd. (Su Zheng Jian Ji Gou Zi [2016] No. 255) (《關於核准國聯證券股份有限公司在江蘇等地設立5家分支機構的批復》(蘇證監機構字[2016] 255號文)) from Jiangsu Securities Regulatory Bureau, 3 new securities branches pursuant to the Reply Concerning Approval of Opening of Three Securities Branches in Jiangsu by Guolian Securities Co., Ltd. (Su Zheng Jian Ji Gou Zi [2016] No. 256) (《關於核准國聯證券股份有限公司在江蘇設立3家證券營業部的批復》(蘇證監機構字[2016] 256號文)) from Jiangsu Securities Regulatory Bureau. During the Reporting Period, the Company set up 10 new securities branches, the details of which are set out as follows:

Item No.	Name of existing Branch	Region
1	Guolian Securities Co., Ltd. Yixing Jiefang East Road Securities Branch (國聯證券股份有限公司宜興解放東路證券營業部)	Yixing, Jiangsu Province
2	Guolian Securities Co., Ltd. Kunshan Xiaolin Road Securities Branch (國聯證券股份有限公司昆山蕭林路證券營業部)	Kunshan, Jiangsu Province
3	Guolian Securities Co., Ltd. Jiangyin Zhouzhuang West Street Securities Branch (國聯證券股份有限公司江陰周莊西大街證券營業部)	Jiangyin, Jiangsu Province
4	Guolian Securities Co., Ltd. Changzhou Wuyi Middle Road Securities Branch (國聯證券股份有限公司常州武宜中路證券營業部)	Changzhou, Jiangsu Province
5	Guolian Securities Co., Ltd. Wuxi Jinrong One Street Securities Branch (國聯證券股份有限公司無錫金融一街證券營業部)	Wuxi, Jiangsu Province
6	Guolian Securities Co., Ltd. Changshu Haiyu North Road Securities Branch (國聯證券股份有限公司常熟海虞北路證券營業部)	Changshu, Jiangsu Province
7	Guolian Securities Co., Ltd. Wuxi Wanshun Road Securities Branch (國聯證券股份有限公司無錫萬順路證券營業部)	Wuxi, Jiangsu Province
8	Guolian Securities Co., Ltd. Nanjing Tuanjie Road Securities Branch (國聯證券股份有限公司南京團結路證券營業部)	Nanjing, Jiangsu Province
9	Guolian Securities Co., Ltd. Jiangyin Qingyang Fuqian Road Securities Branch (國聯證券股份有限公司江陰青陽府前路證券營業部)	Jiangyin, Jiangsu Province
10	Guolian Securities Co., Ltd. Changzhou North Street Securities Branch (國聯證券股份有限公司常州北大街證券營業部)	Changzhou, Jiangsu Province

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### 2 Relocation of Securities Branches

The Company constantly adjusted and optimized its branch network. During the Reporting Period, the relocation of securities branches within the same city in Cangwu Road, Lianyungang and Xiheng Street, Heqiao Town, Yixing was completed.

#### (2) *Establishment of Branch Offices*

During the Reporting Period, the Company set up three new branch offices. Among which, the Company set up 1 new branch office pursuant to the Reply Concerning Approval of Opening of One Branch by Guolian Securities Co., Ltd. (Su Zheng Jian Ji Gou Zi [2016] No. 21) (《關於核准國聯證券股份有限公司設立1家分支機構的批復》(蘇證監機構字[2016]21號文)) from Jiangsu Securities Regulatory Bureau, being Shenzhen branch; set up 2 new branch offices pursuant to the Reply Concerning Approval of Opening of 5 Branches in Jiangsu and Other Places by Guolian Securities Co., Ltd. (Su Zheng Jian Ji Gou Zi [2016] No. 255) (《關於核准國聯證券股份有限公司在江蘇等地設立5家分支機構的批復》(蘇證監機構字[2016]255號文)) from Jiangsu Securities Regulatory Bureau, being Hunan branch office and Southwest branch office.

### 2. **Subsidiaries**

During the Reporting Period, there was no material change on Hua Ying Securities and Guolian Capital, the subsidiaries of the Company.

### 3. **Impact on Results**

In 2016, the Company set up 3 new branch offices and 10 securities branches, which had limited impact on the current results of the Company. Among which, revenue and other income of the 10 securities branches, total expenses and total profit for the year amounted to RMB0.07 million, RMB1.90 million and RMB-1.83 million, respectively; revenue and other income of the 3 branches, total expenses and total profit for the year amounted to RMB0.12 million, RMB5.92 million and RMB-5.8 million, respectively.



## Section 5 Report of the Directors

### (VI) Major Investment and Financing Activities

#### 1. Equity Financing

On 19 September 2016, the Company convened the third extraordinary general meeting of 2016, the second Domestic Shares class meeting and the second H Shares class meeting, which considered and approved the A shares issue proposal and other related resolutions. Pursuant to the resolutions of general meeting, the Company planned the issuance of not more than 634,130,000 A shares in Shanghai Stock Exchange, the proceeds raised from the issue, net of issuing expenses, would be used for replenishing capital, increasing working capital and developing the principal business of the Company. The application materials, including the prospectus of A Shares, was submitted by the Company and accepted by CSRC for review and approval.

At present, the Company is actively preparing for the issuance of A Shares.

#### 2. Debt Financing

The additional debt financing volume of the Company was RMB2.1 billion for 2016, the cumulative principal repayment of debt financing matured amounted to RMB4.450 billion. The amount of outstanding debt financing as at 31 December 2016 was RMB3.3 billion. The debt financing information of the Company in 2016 was as follows:

1. Accumulated proceeds of RMB600 million were raised from the issue of short-term financing bonds, the principal and interest of which have been redeemed;

## Section 5 Report of the Directors

2. Proceeds of RMB1,500 million were raised from the private issuance of bonds, with the principal and interests of RMB1,683 million being repaid. The outstanding subordinated bonds by the end of the period were as follows:

Item No.	Name	Date of value	Maturity Date	Term (Month)	Issuing Amount		
					(RMB in hundred millions)	Coupon rate	
1	14 Guolian Bonds	2014/10/31	2017/10/31	36	15	6.20%	
2	16 Guolian C1	2016/7/29	2021/7/29	60	15	3.89%	
Total private offer of subordinated bonds						30	

3. The accumulated repayment of beneficiary certificates with the principal and interest was RMB2.500 billion. The outstanding beneficiary certificates as at 31 December 2016 were as follows:–

Item No.	Name	Date of value	Maturity Date	Term (Month)	Issuing Amount		
					(RMB in hundred millions)	Coupon rate	
1	Chengxin No. 7	2015/4/24	2017/4/20	24	2	6.40%	
2	Chengxin No. 8	2015/4/30	2017/4/26	24	1	6.36%	
Total beneficiary certificates						3	

### 3. Equity Investment

The Company adopted the Proposal on Establishment of Subsidiaries in Hong Kong (《關於設立香港子公司的議案》) in the first extraordinary general meeting of 2016 held on 28 January 2016, pursuant to which, the Company agreed to set up a wholly-owned subsidiary in Hong Kong and further establish other Hong Kong subsidiaries through such wholly-owned subsidiary to facilitate the Company to conduct businesses in Hong Kong.

As at the end of the Reporting Period, the Company did not obtain any approval from the regulatory authority regarding the establishment of subsidiaries in Hong Kong.



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### (VII) Disposal, Acquisition and Replacement of Material Assets, Spin-off and Reorganization of Other Companies

During the Reporting Period, the Company did not have any disposal, acquisition and replacement of material assets, and spin-off or reorganization of other companies.

### (VIII) Others

#### 1. Impact of Business Innovation on Results and Relevant Risk Control

##### (1) *Business Innovation and Its Impact*

During the Reporting Period, with the adjustments of industry structure in China, the capital market had further become the new driver for economic transformation and upgrading, and ignited the emergence of equity financing market. By virtue of the promotion of NEEQ and the construction of regional equity exchange market at a steady pace, they further exerted the capital-based intermediary functions of securities companies, and with increasing diversification in business and products, they make a further transformation step to comprehensive revenue model through carrying out new businesses such as fund custody business, internet securities business, Shenzhen-Hong Kong Stock Connect, Shanghai-Hong Kong Stock Connect, financial derivatives and OTC market. In 2016, the number of securities brokers took part in the NEEQ market-making increased to 89 from 82 in 2015 with 1,630 NEEQ market-making share stocks. The number of securities brokers obtaining the qualifications for Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect business reached 96 and 94 respectively. The number of stock options investor accounts in Shanghai Stock Exchange increased to 202,013 from 81,557 in 2015, and the average contract trading nominal value and trading volume per day reached RMB7.234 billion and 324,100 contracts, respectively.

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On the basis of further studying the industry's innovation and development trends, by actually integrating the Company's actual situation and abiding to its compliance and risk control standards, the Company prudently carried out every kind of innovative business. It achieved effective development in its internet securities business, Shanghai Stock Exchange stock option business, Shanghai-Hong Kong Stock Connect business, Shenzhen-Hong Kong Stock Connect business and NEEQ market-making business.

- 1 Internet securities business: the Company obtained the pilot qualification of internet securities business approved by SAC on 2 March 2015, and conducted its flow cooperation with well-known channels such as Wind, Snowball and RoyalFlush. As of 31 December 2016, the accumulated number of newly-increased clients of Internet accounts exceeded 85,400, accumulated assets of newly-increased clients amounted to RMB2.206 billion, and the number of accounts opened online accounted was 92.76% of the total number of accounts. During the Reporting Period, "Guolian Investment Advisory" APP basically completed, all investment advisors are on-line and achieved the mobile internetization of investment advisory business.
- 2 Stock options business: the Company formally obtained the qualification of stock options brokerage business, stock options proprietary trading and options settlement business from the Shanghai Stock Exchange on 16 January 2015 and formally started its stock options business on 9 February 2015. As of 31 December 2016, customers' actual number of options accounts opened on Shanghai Stock Exchange was 754, ranked 36th among the industry, and the accumulated total number of contracts and trading volume were 562,932 and RMB269.15 million respectively.
- 3 Shanghai-Hong Kong Stock Connect business: since the trading licences of Shanghai-Hong Kong Stock Connect business was approved on 13 October 2014, the Company actively expanded the Shanghai-Hong Kong Stock Connect business based on adhering to the principles of investor eligibility management and investor education strengthening. As at the end of the Reporting Period, the number of customers that opened the trading access of the Company of Shanghai-Hong Kong Stock Connect was 7,179 and the cumulative trading size was RMB2.275 billion.
- 4 Shenzhen-Hong Kong Stock Connect business: as the trading licences of Southbound Trading business under Shenzhen-Hong Kong Stock Connect was approved on 3 November 2016, the Company became one of the 24 securities brokers, the first batch of securities brokers, to obtain such qualification in the industry. The Company actively expanded the Shenzhen-Hong Kong Stock Connect business based on adhering to the principles of investor eligibility management and investor education strengthening. As at the end of the Reporting Period, the number of customers that opened the trading access with the Company under Shenzhen-Hong Kong Stock Connect was 1,887 and the cumulative trading size was RMB17 million.

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5 NEEQ market-making business: since the qualification for marketing-making on the NEEQ was obtained in August 2014, the Company carried out massively the market-making service for the companies listed on the NEEQ. As at the end of the Reporting Period, the Company provided market-making services for 60 enterprises in total with investment amount of market-making amounted up to RMB81.5 million.

### (2) *Business Innovation Risk Control*

The Company has all along been adhering to the principle of dynamic balance of innovative development and risk control consistently and striving to maintain a stringent standard for its new businesses and new products, forming an effective innovation management mechanism, and making clear the work flow of innovation activities of the Company. The Company adheres to the management vision of giving priority to system and business procedures, clarifies new business procedures and risk characteristics in advance, prepares corresponding business management systems, operating procedures and responsibilities. The Company sets up evaluation and decision-making mechanism covering development, research and review for new products, formulates Review Management Measures on Innovation Business Projects of Guolian Securities (Interim) 《國聯證券創新業務項目評審管理辦法(試行)》, and strengthens the earlier stage demonstration and legal review for the projects. Moreover, the Company sets up stringent risk control system for its different innovation business lines, strictly complies with various regulatory indexes set up by regulatory departments. During the Reporting Period, various innovative businesses were developed healthily and orderly.

### (3) *Innovative Business Prospects*

In 2017, the Company will explore those sectors like internet platform establishment, internet marketing model innovation, internet channel referral and capital investment layout in internet industry chain to further promote the channel expansion and strategic cooperation of internet finance. The Company will further intensify its cooperation effort and depth with high-quality internet channel, proactively seek strategic cooperation opportunity on equity investment level, and introduce well-known internet media to explore new cooperation model and achieve rapid growth for referral clients. Under the development trend of industry mobile internetization, the Company will accelerate the pace of promoting research and development, promotion and operation of internet mobile terminal, continue to optimize and upgrade the function and performance of Guolian Zunbao (國聯尊寶) mobile phone App and Guolian comprehensive financial App by focusing on user experience.

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The Company will take a further step to expand its scope of business and improve service diversity standard. The Custody Business Department will be set up to accelerate the pace of facilitating the reporting work for obtaining the qualifications in fund custody business. Using the fund custody business as a breakthrough point, it will proactively establish the long-term strategic cooperation platform with institutional investors like private equity and their high net value clients to enlarge the client base and expand channel of clients' assets.

The Company will actively cultivate innovation businesses, including the OTC market business and financial derivatives business, to broaden its revenue stream and optimize its income structure. The OTC market business mainly includes listing on the NEEQ and market-making, counter market transaction and OTC derivatives transaction. The Company, at present, has reserved rich customer resources. It will continue to enlarge the size of the NEEQ business in the future, and make more effort to invest in market-making for enterprises listed on the NEEQ subsequently. Meanwhile, the huge demand for risk management from investors will accelerate the rapid development of derivatives, and the Company will increase the investment in counter market transaction and OTC derivatives transaction timely and appropriately.

The Company will accelerate its pace of promoting international strategy, taking reference of overseas matured capital market experience to further expand its business capacity, improve business diversity standard, enrich revenue stream, and enhance operating results stability. The International Business Department will be set up to be in charge of foundation works at the preliminary stage for the preparation of subsidiaries in Hong Kong, comprehensively responsible for the planning and implementation of the Company's international business, proactively using the financing function of listed platform to further strengthen the capital operation in Hong Kong market. Meanwhile, it will actively explore the international business for better satisfying the overseas investment demand of clients, and proactively guiding the clients in completing assets globalization allocation to improve customer service quality.

### 2. Special Explanation on Accounts Standardization and Customers Information Management

The Company implements the accounts management works in strict compliance with the relevant requirements of accounts management issued by CSRC and China Securities Depository and Clearing Corporation Limited. Pursuant to the Notice of Related Matters on Further Strengthening the Standardized Management for Accounts issued by China Securities Depository and Clearing Corporation Limited in 2015, it strengthened the daily management of accounts, set up stringent requirements on account opening, strengthened the verification of investors identities, continued to implement accounts management and improved the long-term account regulation and management mechanism.



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According to the regulatory authority requirements, small amount dormant accounts have already been separately reserved. Meanwhile, the Company also prepared the activation system and operational procedures of related accounts to strengthen the standardization management on such accounts. Consistency of key information of customers including name and ID number is ensured through regular comparison of capital account information and securities account information so as to avoid opening of any unqualified account.

As of 31 December 2016, the Company had 755,553 qualified capital accounts, 1,444,880 qualified securities accounts, 123,525 dormant capital accounts, 95,907 dormant securities accounts and 38 judicial frozen capital accounts. Standardized management for the above accounts was conducted in accordance with the requirements of China Securities Depository and Clearing Corporation Limited.

It is required that in the aspect of customer's data preservation, the branches should separately set up hardcopy and electronic archives for every customer. The hardcopy archives should be placed in designated storeroom of the operating branches for custody purpose. The electronic archives should be uploaded to the server of the Company for custody purpose and back-up should be preserved in a disaster recovery server. The Company will further improve customer archives management system, strengthen the management of archives of customers opening accounts on the internet and make continuous efforts in the management of paper archives and electronic archives.

### 3. Management of Risk Control Index of the Company and Establishment of Net Capital Replenishment Mechanism

The Company established a dynamic monitoring mechanism for risk control index to carry out various businesses under measurable, controllable and endurable risks. During the Reporting Period, the dynamic monitoring system for risk control index was operating in good conditions. The Compliance and Risk Control Department conducted dynamic monitoring on risk index. The Company reported promptly the risk control index data and its satisfaction in written report to the regulatory authority in strict accordance with the requirements of Measures for the Risk Control Indexes of Securities Companies. For any change of risk control index that reaches a certain extent, the Company shall report promptly to the local securities regulatory bureau. Sensibility analysis and stress test will be applied by the Company to ensure all risk control index, including net capital, could be complied with the regulatory requirements in all aspects.

The Company has established the net capital replenishment mechanism. When the risk control index, including net capital, has approached or reached the pre-warning standards, the Company will replenish net capital by reducing the scale of the variety of proprietary investment products with high risks, making more efforts in receivables recovery, raising capital, increasing capital, introducing strategic investors, and issuing subordinated bonds or convertible bonds.

### II. Discussion and Analysis of the Board on the Future Development of the Company

#### (I) Industry Development Trend

The momentum of stable economic development in China provides a good macroeconomic environment for the development of securities industry. The tremendous government support, increase in resident disposable income, wealth management awareness enhancement and all-round regulation on capital market have created broad development capacity for the future development of securities industry in China, which enabled the industry to show a development trend with scalable business development, diversified income structure and internationalized securities service.

The Decision Regarding the Amendments to the Measures for the Risk Control Indexes of Securities Companies was issued and executed by CSRC on 16 June 2016. The business size of securities companies is directly depending on the capital size of the securities companies. In recent years, certain high-quality securities companies have enhanced their strength and net capital size through other means, including IPO. With the industry developing, the business has gradually concentrated to those companies with large-size net capital. Scalable business development in high-quality securities companies will be achieved through positive business cycles.

With the establishment and improvement of multi-level capital market, the current conditions of securities companies' income structure that are highly dependent on securities brokerage, investment banking and securities proprietary business are gradually changing. Asset management, margin financing and securities lending, pledged repurchase transaction, stock index futures, direct investment, agency sales of financial products and the NEEQ have become their new revenue streams. The businesses of securities companies are increasingly diversified, and their income structures will also tend to be balanced and improved.

With the capital market in China further open and the overseas business expansion of domestic enterprises, it brought up the demand for cross-border or overseas investment banking, financial advisory, asset management, investing and financing as well as all kinds of risks hedging services. Hence, this will prompt securities companies to keep on improving their international financial service capabilities to satisfy the needs of international business. Through changing its own business structure and extending international business line, the above will enable securities companies to increase their international market share and maintain a stable position in the fierce and competitive international markets.



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### (II) Market Competition

In recent years, the business competitiveness of securities companies became more and more intense due to the increase in number, but the industry concentration is still low. With the development of the industry, the pace of industry integration is accelerating, and future industry concentration will tend to increase.

The existing business scope of securities companies are identical and business category is relatively unitary, and the revenues mainly come from three business segments including securities brokerage, investment banking and securities proprietary. Despite the rapid business development of securities companies such as asset management and margin financing and securities lending in recent years, however, there is still not much significant difference on the overall profit model of securities companies, and homogeneous competition is relatively severe. Despite the high industry entry barrier, price competition within the industry is fierce due to the insignificant difference of the services and products rendered by the principal business.

Currently, CSRC implements risk control monitoring by focusing on net capital and liquidity, among which, net capital size is one of the key factors affecting the business size and profitability of securities companies in China. Comparatively, the asset size of security companies is smaller than financial institutions such as commercial banks and insurance companies. The risk regulation mechanism focusing on net capital control provides higher requirements on net capital size for conducting various new businesses by the securities companies. Those equipped with stronger capital base whose operation complies with the regulations will have more development advantages. This will benefit those quality companies with stronger concentration in resources, larger business scale and stronger capacity.

### (III) Market Position of the Company

The Company is the only comprehensive legal person securities firm registered in Wuxi. After over 2 decades of development, it has formed a relatively comprehensive business mechanism including securities brokerage, asset management, securities investment, margin financing and securities lending business, and is a medium-sized comprehensive securities firm. The Company has had controlling stake in Hua Ying Securities, invested in Zhonghai Fund and Jiangsu Equity Exchange Co., Ltd. and established Guolian Capital, forming an operating layout integrating securities, fund, and direct investment businesses.

According to the statistics of SAC, as at the end of the Reporting Period, the Company was placed in the medium level of the industry in terms of the indicators of total assets, net assets, net capital, operating revenue, net profit and so on.

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The Company is having a paramount position in Wuxi region. During the Reporting Period, under the background of having absolute leading advantage in consolidating the traditional brokerage business in Wuxi, the Company achieved an important breakthrough in the NEEQ business sector. In 2016, the Company completed the listing of total 15 Wuxi companies on the NEEQ; raised RMB202 million equity financing for 7 enterprises in Wuxi; completed mergers and acquisitions and reorganization for 2 enterprises in Wuxi with an asset size of RMB99.985 million; provided market-making service for 16 enterprises in Wuxi; and provided continuous supervision services for 32 enterprises in Wuxi.

During the Reporting Period, the Company was awarded the title of “2016 Excellent Issuer in China’s Bond Market” by China Central Depository & Clearing Co., Ltd. (中央國債登記結算有限責任公司); recognized as the “Civilized Unit of Jiangsu Province” by Spiritual Civilization Development Steering Commission of Jiangsu Province; recognized as the “Excellent Enterprise of Jiangsu Province” by Jiangsu Committee of the Communist Party of China and People’s Government of Jiangsu Province; and granted the “Award for Promoting Listing” under the Award for Financial Works in 2015 issued by People’s Government of Wuxi.

### (IV) Analysis of Core Competitiveness

#### 1. Successful Listing in Hong Kong Laid the Foundation for Improving Market Competition and Risk Resistance Capability

As approved by CSRC and Hong Kong Stock Exchange, the Company completed its overseas initial public offering of 402,400,000 H Shares, and was listed on the Main Board of Hong Kong Stock Exchange on 6 July 2015. After its listing in Hong Kong, the social influence and industry publicity of the Company keep on increasing and thus enables the rapid development of its various businesses. The increased capital strength created a strong support for the Company in its business transformation and sustainable development.





## Section 5 Report of the Directors

### 2. Unique Regional Advantages

The headquarter of the Company is in Wuxi, Jiangsu Province. Its current principal place of business is in Wuxi and other regions in Jiangsu Province. Jiangsu Province is one of the most economically developed provinces in China, and Wuxi is a strong economically developed city in Jiangsu Province. As at the end of 2016, the GDP of Jiangsu Province was over RMB7.6 trillion, ranked No. 2 in China. According to the 2016 Statistical Report on Wuxi Domestic Economy and Social Development, the GDP of Wuxi was RMB921.002 billion and the GDP per capita (calculated based on permanent resident population) was over RMB140,000, ranked No. 3 and No. 2 respectively in Jiangsu Province. With the gradual decrease in the proportion of saving deposits to assets allocation of residents and the adjustment in real estate industry at a high level, the proportion of securities assets to assets allocation of residents will gradually increase, which still has ample increasing capacity. The Company further intensified its market development in the economically developed Jiangsu and Eastern China markets to cultivate a loyal and increasing stable customer base. As of 31 December 2016, the Company owned a total of 69 securities branches, among which, 50 were located in Jiangsu Province, of which 31 were in Wuxi (including Jiangyin and Yixing). The sound economic foundation and active financial environment in Wuxi and Jiangsu Province have greatly facilitated the business development of the Company. With the establishment and development of the branches in Beijing, Shanghai, Shenzhen and other places, the Company will establish presence in larger business development regions to achieve the entire leapfrog development of the Company.

### 3. Outstanding Product Research and Development Capability and Continuous Business Structure Optimization

The Company focused on improving the research and development capability of products and services, and equipped with outstanding product research and development capability. The Company established a comprehensive internet transaction service platform, launched stock pledged repurchase products in the industry earlier than its peers, and promptly captured business opportunities, and realized the rapid development in the new capital-based intermediary business including margin financing and securities lending and stock pledged repurchase. Meanwhile, the Company launched different kinds of asset management schemes to satisfy the diversified needs of clients. For service methods, the Company gradually transformed from mere provision of channel services to modern comprehensive financial services covering customer needs analysis, investment advisory, asset allocation and provision of diversified financial products.

During the Reporting Period, whilst fully assuring the development of traditional brokerage business, the Company proactively promoted the development of various businesses including credit transactions, investment banking, asset management and securities proprietary, so that continuous improvement is made in its business structure and a sound development in all business segments is achieved.

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### 4. Sound and Highly Efficient Operation Management and Prudent Risk Control Approach

For many years, the Company has abided to the business philosophy of steady development, facilitated the stable transformation and upgrading of its business models, optimized its revenue mix and profit source of the Company, and achieved years of profitability successively. Of the domestic securities companies in the PRC since inception (from 1999 to date), the Company is one of few securities companies with successive profitability.

The Company regards comprehensive risk management as its important measures to achieve and ensure its business development, upholds its compliance baseline, establishes stringent risk control system for different business segments, adopts measures of prior review, supervision during business transactions and risk handling measures and regulates various systems and procedures to ensure compliant operation and controllable risks for various businesses. The prudent risk management style and effective internal control measures are important supports for the Company to achieve its stable business objectives. The Company was rated as Class A in A Category in the evaluation results of the securities companies segment announced by CSRC for three successive years from 2014 to 2016.

### 5. Experienced Senior Management Team and High-Quality Talents

The senior management team of the Company has extensive experience and outstanding management abilities in securities and financial services industry, and over half of the management hold master's degrees or doctorate degrees and have many years of management experience in securities and financial services industry. They are able to understand profoundly the development trend of the industry, make accurate business judgment, and capture promptly business opportunities and adjust business strategies prudently.

The middle management team of the Company has many years of experience in the securities industry in China, and possesses very strong execution ability. The Company establishes a comprehensive remuneration review incentive mechanism, and sets up a comprehensive three-dimensional human resources model including high-end talents recruitment, middle-level management training, and back-up management capability training and escalating new staff professional barrier. This will facilitate the recruitment and cultivation of a larger number of high-quality professional talents for the Company and provide strong talent support for the transformation development of the Company.



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### (V) Future Development Prospects

Looking forward into 2017, the Company will facilitate actively its A-share listing process. With serving the real economy and enhance customer experience as its objectives, the Company will accelerate the construction of the integrated financial customer service platform to serve and nurture its long-term customer base through the all-round and comprehensive financial integration solutions, and maintain the long-term partnership with its customers to achieve joint growth. The Company will accelerate the facilitation and implementation of internet finance strategy, explore internet platform construction, internet marketing model innovation, internet channel traffic directing, capital investment layout for internet industrial chain and other segments, and further promote the channel development and strategic cooperation in internet finance. The Company will further expand its business scope, strive to make a breakthrough in fund custodian business and international business, improve the diversification service standard, increase income source, and strengthen operating results stability.

In future, with the realization of our A-share listing plan, the capital strength of the Company will be further enhanced, and its shareholding structure will be further optimized. The Company will leverage on the raising of capital to optimize its branch network layout, achieve full coverage in major central cities nationwide, and at the same time further increase the number of branch offices in key development regions to increase the market share of the brokerage business. The Company will actively cultivate innovative businesses such as the OTC market business and financial derivative products business to expand its income source and optimize its income mix; promote the development of capital based intermediary businesses like margin financing and securities lending, stock pledged repurchase; increase investment in asset management business, enhance its product creativity ability and investment management ability, and expand its asset management scale. Within the scope of controllable risk, we will increase modestly the investment size of proprietary business according to market situation to improve investment returns; increase capital investment in subsidiaries to expand their business scale and promote the rapid development of its subsidiaries. At the same time, the Company will speed up the construction of modern securities holding group, establish or acquire securities related institutions or assets at appropriate time. The Company will also strengthen the construction of risk control system and IT system to fully play their supporting roles in the development of various businesses.

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### (VI) Risk Factors Exposed and Counter Measures

The Company's business operation is exposed to risks in which they mainly include: market risk, credit risk, concentration risk, operational risk, compliance risk and liquidity risk. Specifically speaking, they are represented in the following aspects:-

#### 1. Market Risk

Market risk refers to the risk of unexpected potential value losses resulting from the changes in stock market prices, interest rates and exchange rates in stock markets. The market risk of the Company mainly comes from the securities proprietary trading and assets management businesses, which is specifically reflected in the risk of stock prices, interest rates risks and exchange rates risks.

To control market risk, the Company mainly adopted the following measures: (1) sensitivity analysis, the Company ensures that its overall portfolio risk falls within the expected range by setting limit control to different sensitivity parameter and adjusting the market risk of financial products; (2) concentration control, the Company executes the capital limit at all levels (including business and products), and control its risk bearing capacity by limiting market risk exposure, the Company adjusts the capital limit annually to reflect market conditions, operation position and change in risk bearing level of the Company; (3) value-at-risk method, the Company evaluates risk exposure and debts of the Company, relative or absolute risk of equity investment by using daily value at risk, and timely monitor the relevant risk limits of the Company; (4) stress test and scenario analysis, the Company monitors risk exposure by adopting stress test and scenario analysis. The Company issues periodically its market risk report, and assigns the designated risk control personnel at various business departments to monitor and analyze the risks relevant to its business operations.

#### 2. Credit Risk

Credit risk refers to the risk that may cause economic losses to the Company due to the failure of lending type customers, transaction counterparty or issuers of the securities held by the Company in performing the obligations as agreed in the deeds for various reasons. It mainly includes the credit risks (default risks) and collateral risk of transaction counterparty.

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Transaction counterparty credit risk refers to the risk that may cause economic losses to the Company due to the failure of transaction counterparty to perform the obligations as agreed in the deeds. The Company has established internal credit rating model to control such risk. The Company judges the economic strength of the transaction counterparty through analyzing a number of financial indicators of the transaction counterparty, which includes liquidity, level of indebtedness, stable source of income, as well as stock market value, and issues a due diligence report. The Company initially built the implied rating model to rate its bonds internally based on market data, and thus achieve the daily monitoring of bond credit risk.

Collateral risk refers to whether the payment capability of the collateral relevant to the pledged security is able to cover the exposure at default that is required to be assumed for such project. The credit transactions businesses like securities lending and securities-backed developed by the Company may expose to such risk. Accordingly, the Company will make periodic adjustment on the value of the collaterals according to the market situation and the risk of individual stock.

### 3. Concentration Risk

Concentration risk refers to the risk resulting from the excessive risks exposure from the same source due to mere single business. The Company sets threshold values on various levels for effective limit management, and enhances and improves the identification, measurement, monitoring and reporting system of concentration risk, and thus perfects the stress test system of concentration risk. Based on the stress test results, the Company sets the risk warning line to give a reminder or warning on concentration risk, and thus forms a concentration risk prevention and control mechanism.

### 4. Operational Risk

Operational risk refers to the risk of loss resulting from the improper or invalid internal processes, personnel and system or external events during the operation process of the Company.

As for operational risk, the Company has established a sound internal control mechanism, regularly carries out effective assessment of internal control throughout the Company; arranges special staff of operational risk management to standardize and optimize related business processes; reorganizes the statistics of the operational risk event occurrence frequency and corresponding losses for the purpose of establishing loss database, and evaluates the expected losses caused by operational risk according to risk rating matrix. Furthermore, the Company constantly strengthens behavior adequacy and normative operation of staff from each position through various means, such as internal training, annual assessment; and prepares emergency risk management plan with regular drills to ensure the security of equipment, data and system, thereby preventing the outbreak of large-scale operational risk caused by information system failure.

## Section 5 Report of the Directors

### 5. Compliance Risk

Compliance risk refers to the risk that the Company may be exposed to legal sanction or regulatory penalties, significant property damages or reputation losses as a result of violating the laws and regulations, regulatory requirements, rules, the relevant criterions set up by self-disciplined organizations, and the code of conduct applicable for the operation activities of the Company.

The Company has established an effective and impeccable compliance risks management system and compliance management and organisation system. To facilitate its compliance management, the Company sets up the Compliance and Risk Control Department, exploring different effective models for compliance management by communicating with various supervision departments. At the same time, the Compliance and Risk Control Department of the Company implements an effective and comprehensive control on compliance risks encountered by the Company in its business operation by means of compliance testing, compliance inspection, compliance investigation, compliance supervision and compliance training.

### 6. Liquidity Risk

Liquidity risk refers to the risk that the Company is unable to obtain sufficient fund in time at reasonable costs for paying indebtedness when it falls due, performance of other payment obligations and meet the funding needs of normal business operation. The rapid development of the businesses, such as proprietary business, asset management, securities lending and credit transaction exerts higher requirements on liquidity.

To cope with and manage the liquidity risk effectively, the Company adopts the following measures: (1) manage funding source, financing arrangement and funds allocation in a highly efficient manner; (2) based on the business development, financial position and financing capacity of the Company, and also taking into account of the liquidity risk and other related risks involved in the operation process, the Company determines the liquidity risk preference, normal liquidity level and liquidity risk limit; (3) conduct stress test when the utilization of funds has reached the liquidity limit, and take appropriate measures to ensure that the liquidity risk exposure for each business line falls within the authorized threshold value; (4) set up adequate liquidity reserve to ensure additional fund source will be provided in emergency circumstances.

## Section 5 Report of the Directors

### (VII) Systematic Construction of Company Risk Management

The Company formulated the Basic System for Comprehensive Risk Management of Guolian Securities (Trial) (《國聯證券全面風險管理基本制度(試行)》), in which it determined the risk management organization structure of the Company: the Board has the ultimate responsibility for the risk management of the Company. The Board delegates its Risk Control Committee to be wholly responsible for risk management works, the senior management of the Company is responsible for organizing and implementing various works in comprehensive risk management, the Risk Management Committee is mainly responsible for risk assessment on significant operation projects and innovation business of the Company, review and approve operational process and rules for risk management, review and approve risk over limit falling within certain range, and the division and adjustment of specific functions for risk management department of the Company. The chief risk officer of the Company assists the president of the Company to carry out risk management on various businesses of the Company, and leads the special risk management department of the Company to carry out such work. The risk management department of the Company performs risk identification, measurement, control, reporting and other specific tasks respectively according to risk classification and functional division. The officers of business departments and branches of the Company are mainly responsible for proper identification, assessment, response and reporting of related risks, accept independent supervision by risk management department of the Company, assume the risks incurred in the process of business decision-making and execution, and take up direct responsibility on the effectiveness of risk management.

Before and during the operation and management activities, the Company requires various departments to collect and analyze comprehensively, systematically and continuously the internal and external information that may affect the Company in achieving its operational targets, identify business risk countered and possible consequences, and prepare risk identification report on each key business. The risk management department of the Company directs the business departments or functional departments to commence the collection work of internal and external information and initial risk identification work, formulate risk identification methods and corresponding reporting mechanism, then update timely and continuously. To ensure the accuracy of risk identification analysis, under the premise of cost-benefit principal, the risk management department conducts a comprehensive and systematic investigation, analysis, review and confirmation on the initial identification results of business departments or functional departments, reveals its nature, type and possible consequences according to the source of risk, features, formation conditions and potential impact, and classified them by business, department and risk type.

The risk management department of the Company sets up the evaluation criteria based on the nature, type, extent of impact and occurrence possibility of the risks, analyzes and measures the risks identified by combining the qualitative and quantitative methods, and conducts grade evaluation or quantization sorting to determine risks that are required to pay more attention and needs priority control. During the execution process, the risk management department of the Company may select the risk measurement and assessment methods suitable for its own management needs according to the type of business and nature of risk exposure.

## Section 5 Report of the Directors

Based on the results of risk identification and risk assessment, the business departments and risk management department of the Company will eventually adopt the reacting strategies like risk undertaking, risk hedging, risk acceptance and risk control which are in line with risk preference of the Company.

The internal compliance risk control personnel appointed by departments and branches of the Company shall report the monitoring results of business risks for the respective departments, matters relating to system process, risk limit, indicator compliance and risk events to the risk management department of the Company and its superior management department

### III. Profit Distribution and Profit Distribution Plan

#### (I) Dividend Distribution for 2015

The Profit Distribution Plan for 2015 of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2015年度利潤分配議案》) was passed at the 2015 annual general meeting of the Company convened on 16 June 2016, which approved that based on the total share capital of Domestic Shares and H Shares of 1,902,400,000 shares as of 31 December 2015, the Company could distribute cash dividends of RMB4 per 10 shares (tax inclusive) to holders of Domestic Shares and H Shares whose names appeared on the Company's register on the record date, with total cash dividends of RMB760,960,000.00.

The cash dividend will be denominated, declared and payable in RMB to domestic shareholders and in Hong Kong dollars to the shareholders of H Shares. The actual distributable amount in Hong Kong dollars will be converted based on the average benchmark exchange rate of RMB to Hong Kong dollars (namely RMB0.846976 to HK\$1.00) as announced by the PBOC five business days before the date of the 2015 annual general meeting of the Company. The Company's profit distribution for the year 2015 was completed on 16 August 2016.

#### (II) Dividend Distribution for 2016

According to the enterprise accounting standards in the PRC, the audited net profit of the Company in 2016 was RMB549,687,036.26. According to the relevant requirements of the Company Law, Securities Law, Financial Rules for Financial Enterprises and Articles of Association, after 10% was appropriated to each of the statutory provident fund, general risk reserve and transaction risk reserve respectively, totaling RMB164,906,110.89, the profit available for distribution for the year amounted to RMB384,780,925.37.

The balance of the undistributed profit of RMB1,972,903,806.62 in previous years, after deducting the dividend payment of RMB760,960,000.00 as implemented in 2016 under the 2015 profit appropriation plan, the accumulated distributable profit for the year was RMB1,596,724,731.99.



## Section 5 Report of the Directors

In considering the development of the Company and the interests of the shareholders, the Company proposed the 2016 profit distribution plan as follows: by using the total number of shares of 1,902,400,000 as at the end of 2016 as a base factor, a cash dividend of RMB1.40 (including tax) for every 10 shares held is proposed to be distributed to all shareholders. The total amount of cash dividend is RMB266,336,000.00, and the undistributed profit of RMB1,330,388,731.99 will be carried forward to next year.

The cash dividend will be denominated and declared in RMB, and payable in RMB to domestic shareholders and in Hong Kong dollars to the shareholders of H Shares. The actual distributable amount in Hong Kong dollars will be converted based on the average benchmark exchange rate of RMB to Hong Kong dollars as announced by the People's Bank of China five business days before the date of the 2016 annual general meeting of the Company.

After the consideration and approval of the 2016 profit distribution plan of the Company at the annual general meeting, the cash dividends will be paid within 2 months from the date of that meeting. The Company will announce in due course the date of convening the 2016 annual general meeting, and the time that the registration of share transfer will be closed for determining the list of shareholders who have the right to attend and vote at the annual general meeting. The Company will announce in due course the date of distributing the H share dividends and the date that the registration of share transfer will be closed.

## IV. Issuance of Shares and Use of Proceeds

### (I) Overall Situation of Proceeds Raised

As approved by Zheng Jian Xu Ke [2015] No. 1024 "Reply Concerning Approval of Issuing Overseas-Listed Foreign Shares by Guolian Securities Co., Ltd." (《關於核准國聯證券股份有限公司發行境外上市外資股的批復》) of the China Securities Regulatory Commission, in accordance with the relevant requirements of the state's relevant laws and regulations, the Company completed its first issue of 402,400,000.00 H shares to overseas investors at Hong Kong Stock Exchange on 6 July 2015 at an issue price of HK\$8.00 per share. The net proceeds raised amounted to HK\$3,097.3263 million (equivalent to RMB2,443.9763 million) (after deducting underwriting expenses and other capitalization issue expenses), which was verified by PricewaterhouseCoopers Zhong Tian LLP and issued the PricewaterhouseCoopers Zhong Tian Capital Verification Report Yanzi (2015) No. 956.

## Section 5 Report of the Directors

As at 31 December 2016, the Company's actual cumulative investment amount used was RMB1,740.0021 million according to committed proceeds purpose (had adopted the exchange rate for the H shares proceeds raised to calculate based on actual settlement exchange rates) computation, and the closing balance of bank account for the proceeds raised totalled HK\$986.6843 million and RMB8.6204 million (equivalent to RMB891.2095 million using the period-end closing exchange rate) respectively.

According to the development strategies and actual market situation, the Company was in strict compliance with the requirements of use of proceeds, the committed proceeds were used as follows:

- (1) Approximately 45.00% of the funds will be used to further develop margin financing and securities lending business of the Company, among which RMB940 million has been used;
- (2) Approximately 20.00% of the funds will be used to develop other capital-based intermediary services of the Company, among which RMB430 million has been used;
- (3) Approximately 15.00% of the funds will be used to expand proprietary trading business of the Company, among which RMB370 million has been used;
- (4) Approximately 10.00% of the funds will be used to develop the Internet trading business of the Company, the usage is currently changed to using its as capital contribution and other preliminary expenses for the planned establishment of subsidiaries in Hong Kong and as supplemental working capital of the Company, and has not been used;
- (5) Approximately 10.0% of the funds will be used for working capital and other general corporate purposes, among which RMB2,100 has been used.

## Section 5 Report of the Directors

### (II) Change of Proceeds Raised in Projects

As approved at the general meeting on 29 July 2016, the Company changed 10% of the funds which were originally planned to be used for develop Internet trading business of the Company to capital contribution and other preliminary expenses used for establishing subsidiaries in Hong Kong and as supplemental working capital of the Company.

### (III) Use of Proceeds for the Committed Projects

Unit: in RMB ten thousands

Name of committed projects	Any change in project	Invested amount of proceeds raised during the reporting period	Actual total invested amount of proceeds	Progress of project used	Change in usage
Margin financing and securities lending	None		94,000.00	81%	
Capital-based intermediary services	None	19,000.00	43,000.00	82%	
Investment business	None		37,000.00	96%	
Internet trading	Yes				Changed as the capital contribution and other preparation expenses for establishing subsidiaries in Hong Kong and supplementing the working capital of the Company
Working capital and others	None	0.07	0.21		
Establishing subsidiaries in Hong Kong and supplementing the working capital of the Company	Yes				
<b>Total</b>		<b>19,000.07</b>	<b>174,000.21</b>	<b>66%</b>	

Note: The exchange rate used for the capital raised from H shares is based on actual settlement exchange rates.

## V. Directors

Information about the Directors of the Company during the Reporting Period and as at the date of this report is set out in Section 8 “Directors, Supervisors, Senior Management and Staff” in this report and section 6 “IX. Significant Subsequent Events” of this report.

## Section 5 Report of the Directors

### VI. Directors and Supervisors' Service Contracts

No Directors and Supervisors of the Company have entered into any service contract with the Company or its subsidiaries which is not terminable within one year without payment of compensation (other than statutory compensations).

### VII. Interests of Directors and Supervisors in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements or contract of significance in relation to the Group's business to which the Company, its subsidiaries, its Controlling Shareholders or the subsidiaries of the Company's Controlling Shareholders was a party and in which a Director or Supervisor of the Company or an entity connected with a Director or Supervisors has a material interest, whether directly or indirectly, has been entered into or subsisted at the end of the financial year under review or at any time during the financial year.

### VIII. Controlling Shareholders' Interests in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Controlling Shareholder had a material interest on, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the financial year under review save as disclosed under "IV. Connected Transactions" in Section 6 and notes to the financial statements.

### IX. Directors' Interests in the Business Competing with the Company

The Directors of the Company have no interest in the business that is competing with the Company.

### X. Directors' Right to Purchase Shares or Debentures

As at the end of the Reporting Period, no rights were granted to any Director, Supervisor or their respective spouse or children under 18 years of age by the Company, its subsidiaries, its Controlling Shareholders or the subsidiaries of the Company's Controlling Shareholders to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, or were any such rights exercised by them; or was the Company, its subsidiaries, its Controlling Shareholders or the subsidiaries of the Company's Controlling Shareholders a party to any arrangement to enable any Director, Supervisor or their respective spouse or children under 18 years of age, to acquire such rights in the company or any other body corporate.



## Section 5 Report of the Directors

### **XI. Interests and Short Positions of Directors, Supervisors and Senior Management in the Shares, Underlying Shares or Debentures of the Company and Any of Its Associated Corporations**

As at the end of the Reporting Period, based on the information available to the Company and to the knowledge of the Directors, no Directors, Supervisors or senior executive of the Company have any interest or short positions in the shares, underlying shares or debentures of the Company or any of its any associated corporations (within the meaning of Part XV of the SFO) (i) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under those provisions of the SFO), or (ii) which will be required to be recorded in the equity register kept pursuant to Section 352 of the SFO, or (iii) which will be required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code.

### **XII. Compliance with Non-competition Agreement**

As disclosed in the prospectus, on 15 June 2015, the Controlling Shareholders of the Company entered into a Non-competition Agreement in favour of the Group, pursuant to which, the Controlling Shareholders have irrevocably undertaken to the Company that, save for the exceptional circumstances as disclosed in the prospectus, the Controlling Shareholder and the controlled entities (as defined in the prospectus) will not, directly or indirectly, invest in, participate in, be engaged in or operate or be interested in any business in any way inside or outside the PRC separately or with any other parties, whereby it will compete or is likely to compete with the main business of the Company, and have undertaken not to engage in any competitive activities by taking advantages as the Controlling Shareholders of the Company which would be prejudicial to the benefits of the Company or its subsidiaries. For the direct investment business, the Controlling Shareholders and the controlled entities have also undertaken to provide the Company the options and pre-emptive rights regarding new direct investment business opportunities. The Investment Decision Committee of Guolian Capital is responsible for reviewing and deciding whether the Group should take up the related new direct investment opportunities. The independent non-executive directors of the Company supervise and review the composition of the committee and the decisions it made.

The Independent Non-executive Directors had reviewed members of the Investment Decision Committee of Guolian Capital twice during the Reporting Period, and considered that the members involved in the decision-making of new business investment opportunities had business experience and professional capacity which are necessary for performance of their duties, and had no conflict of interest with the Group.

## Section 5 Report of the Directors

During the Reporting Period, the Controlling Shareholders and the controlled entities referred 17 new business investment opportunities to Guolian Capital. The Investment Decision Committee of Guolian Capital had reviewed such new business investment opportunities, and considered that such business investment opportunities involved issues like existence of project risks that are difficult to control, industries not being those that Guolian Capital has invested normally and relatively high valuation, which did not meet the investment project review standards of Guolian Capital, so it decided not take up such new business investment opportunities. The independent non-executive Directors had made an annual review on such decision, and was of the view that the decision made by the Investment Decision Committee of Guolian Capital was based on its professional judgement to the new business investment opportunities, reflecting the interest of the Group.

The Controlling Shareholders have confirmed to the Company that, during the Reporting Period, they have complied with all the terms of the non-competition agreement. The Independent non-executive Directors have conducted an annual review regarding the compliance of non-competition agreement and have not found any non-compliance issues on the non-competition agreement by Controlling Shareholders.

### XIII. Other Disclosures

#### (1) Share Capital

The information is set out in the “Consolidated Statement of Financial Position” and Note 37 to the consolidated financial statements of this report.

#### (2) Pre-emptive Rights

There is no pre-emptive rights arrangement of the Company pursuant to the laws of the PRC and the requirements of the Articles of Association.

#### (3) Sufficiency of Public Float

During the Reporting Period and up to the date of this report, the public float of H Shares of the Company is 23.267%, which remains in compliance with the waiver from strict compliance with the public float requirements granted by the Hong Kong Stock Exchange pursuant to Rule 8.08(1) (d) of the Listing Rules.

#### (4) Management Contracts

During the Reporting Period, the Company did not enter into any contracts nor had any existing contracts in respect of all or any significant parts of management and administration of business of the Company.



## Section 5 Report of the Directors

### (5) Information on Tax Reduction and Exemption for Holders of H Shares

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

According to the Arrangements for the Avoidance of Double Taxation and Prevention of Tax Evasion in Mainland and Hong Kong (Guo Shui Han [2006] No. 884) signed on 21 August 2006 in relation to income tax, the Chinese government may impose tax on dividends payable by the Chinese companies to Hong Kong resident beneficial owners, but the tax should not exceed 10% of the total dividend payable; if Hong Kong resident beneficial owners hold at least 25% equity interest in the Chinese company, the relevant tax shall not exceed 5% of the total dividend payable by the Chinese company.

## Section 5 Report of the Directors

According to the Enterprise Income Tax law of the People's Republic of China and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China effective on 1 January 2008, if non-resident enterprises establish no organizations and sites within the territory of China, or though establish organizations and sites but the dividends and bonuses received have no real connection to the organizations and sites established, such enterprises shall pay the corporate income tax at the rate of 10% of its income from the Chinese territory. The withholding tax may be relief under an applicable double taxation treaty.

According to the Notice on the Withholding Corporate Income Tax on the Dividends Distributed by the Chinese Resident Enterprise to Foreign H Share Non-resident Enterprise Shareholders (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation and effective on 6 November 2008, when the Chinese resident enterprises distribute dividends of 2008 and subsequent years to foreign H share non-resident enterprise shareholders, they shall pay the withholding enterprise income tax at the rate of 10%. Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent and provide evidence in support of its status as a beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authorities, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

Pursuant to provisions in the Notice on Tax Policy Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends obtained by mainland individual investors from investing in H-shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, such H-share companies shall withhold individual income tax at the tax rate of 20%. For the dividends obtained by mainland securities investment funds by investing in shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the individual income tax will be levied pursuant to the provisions mentioned above. For the dividends obtained by mainland enterprise investors from investing in shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, such H-share companies shall not withhold and pay any income taxes on the dividends, as the income taxes shall be reported and paid by the investing enterprises on their own. Meanwhile, for the dividends obtained by mainland resident enterprises from holding relevant H shares for consecutive 12 months, the corporate income taxes shall be exempted according to laws.

Pursuant to the current practices of Inland Revenue Department of Hong Kong, no taxes shall be levied for the dividends distributed by the Company.

The shareholders of the Company shall pay the relevant taxes and/or be entitled to tax relieves pursuant to the above provisions.





## Section 5 Report of the Directors

### (6) Reserves and reserves of profits available for distribution

Please refer to the “Consolidated Statement of Changes in Equity” and Note 38 to the consolidated financial statements of this report regarding the changes in the Group’s reserves and reserves of profits available for distribution during the Reporting Period.

### (7) Major Customers and Suppliers

The Company provides services for various individual and institutional customer groups. The Company’s major customers include non-enterprise institutions, large, medium and small enterprises, institutional investors and retail customers. During the Reporting Period, revenue generated from the top five customers accounted for 9.13% of total revenue and other income of the Group. None of the Directors, Supervisors or any of their respective close associates or any shareholder holding more than 5% of the issued share capital of the Company has any interests in the Company’s top five customers.

Due to the nature of the business, the Company has no major supplier.

### (8) Property and Equipment

Please refer to the Note 21 to the consolidated financial statements of this report for the Group’s property and equipment during the Reporting Period.

### (9) Fulfillment of Social Responsibilities

The Company is earnest to social public interest activities and actively implements corporate social responsibility. In 2016, the Company and our staff donated over RMB1,320,000. Of which, the Labor Union of the Company organized our staff to donate RMB125,780 to the “Red Cross Humanity Donation by Ten Thousand People” activity in Wuxi, donated RMB1,114,660 to the “Love Dedication Activity for Disaster Relief” in Yancheng, donated RMB82,000 to the “Warming Heart and Offering Love” charitable and donating activity in Wuxi, and donated winter clothes, 15 sets of toys, stationery and computers to the “Let’s Concern and Care the Left-behind Children in Bijie, Guizhou Province” activity initiated by Securities Association of Jiangsu. In the “Cheers and Laughter” community activity jointly hosted by us, Wuxi Finance Office and Jiangnan Evening News Agency, we visited 25 squares and communities to promote voluntarily the knowledge in financial service safety and provide strong support in financial service safety for residents in Wuxi. In addition, the Company conscientiously implemented the spirit of the Central Poverty Alleviation Work Conference, actively implemented the work of targeted poverty alleviation, for which we had executed the support and cooperation agreements with Susong County, Anhui province and Pingchang County, Sichuan province, the state-level poverty counties.

## Section 5 Report of the Directors

### (10) Relationship between the Company and its Staff, Customers and Suppliers

#### 1. Staff

For details, please refer to Section 8 “VI. Information About Staff and Remuneration of the Company and Major Subsidiaries” in this report.

#### 2. Customers

For details, please refer to “XIII. Other Disclosures” in this section.

#### 3. Suppliers

For details, please refer to “XIII. Other Disclosures” in this section.

### (11) Compliance with Laws and Regulations

The business of the Company is mainly conducted in mainland China, and the Company has already listed on the Hong Kong Stock Exchange. Hence, the operation of the Company shall comply with the relevant laws and regulations in mainland China and Hong Kong at the same time. During the Reporting Period and up to the date of this report, the Company has complied with the relevant laws and regulations in Mainland China and Hong Kong.

### (12) Major Events after the Reporting Period

For details, please refer to Section 6 “IX. Significant Subsequent Events” of this report.

### (13) Exchange Rate Fluctuation Risks and Any Related Hedging

The foreign currency assets and liabilities held by the Company are not material when compared to total assets and liabilities. In terms of the Company’s revenue structure, the majority of the business transactions are settled in RMB, with only insignificant revenue from foreign currency transactions. The Company considers that their currency risk is immaterial.

By order of the Board  
**Guolian Securities Co., Ltd.**  
Yao Zhiyong  
Chairman

15 March 2017

## Section 6 Other Significant Events

### I. Penalty or public censure during the Reporting Period of the Company

During the Reporting Period, the Company was not subject to any administrative penalty or public censure by regulatory authorities such as CSRC, SAC, stock exchanges due to any material illegal activities or violations.

### II. Significant lawsuits and arbitrations

#### (I) New lawsuits and arbitration cases during the Reporting Period

During the Reporting Period, the new lawsuits and arbitration cases involving the Company in which the amount had exceeded RMB10.00 million were as follows:

On 6 June 2016, the Company received a notice of arbitration issued by Wuxi Arbitration Commission. On 13 May 2016, Mr. Hu Xucang (as the claimant) had filed an application of arbitration with Wuxi Arbitration Commission against the Company (as the claimee), which requested the Company to compensate his loss of RMB81.119 million and assumed the corresponding arbitration charges.

On 10 December 2014, Hu Xucang entered into the Guolian Dingzengjingxuan No.8 Collective Asset Management Scheme Asset Management Contract (《國聯定增精選8號集合資產管理計劃資產管理合同》) with the Company, and subscribed the Dingzengjingxuan No.8 Collective Asset Management Scheme (定增精選8號集合資產管理計劃) of the Company. The Scheme participated in the Debang-Huixin No.2 Asset Management Scheme (德邦-惠芯2號資產管理計劃), which subscribed for the non-publicly issued stock of Tianjin Marine Shipping Co., Ltd. (天津市海運股份有限公司) (now changed its name to "Tianjin Tianhai Investment Co., Ltd." (天津天海投資發展股份有限公司)). On 22 February 2016, the Company published the Announcement on the Early Termination for Liquidation of Guolian Dingzengjingxuan No.8 Collective Asset Management Scheme (《關於國聯定增精選8號集合資產管理計劃提前終止並進入清算流程的公告》), and decided to early terminate this collective scheme. On 13 May 2016, Hu Xucang filed an application of arbitration with Wuxi Arbitration Commission for the reason that the Company did not dispose of the shares upon his instructions, claiming the Company was in breach of integrity, good faith, care and diligence, as well as the contract obligations of working for the best interest of claimant, and requested the Company to compensate him the loss of RMB81.119 million and assumed the corresponding arbitration expenses.

Wuxi Arbitration Commission conducted a hearing regarding the case on 4 July 2016 and 3 November 2016 respectively, and issued a verdict on 28 November 2016, which dismissed the arbitration application of the claimant, Hu Xucang, and the arbitration expenses shall be borne by the claimant, Hu Xucang. The ruling is final and shall take effect from the date of ruling.

## Section 6 Other Significant Events

Save as the aforesaid case, during the Reporting Period, there was no new lawsuits and arbitration cases involving the Company in which the amount had exceeded RMB10 million.

### (II) Cases concluded during the Reporting Period

For the cases that concluded during the Reporting Period, please refer to the “New lawsuits and arbitration cases during the Reporting Period” in this section.

### (III) Cases on enforcement procedures and bankruptcy proceedings

During the Reporting Period, the Company involved in two arbitration cases that entered into enforcement procedures and bankruptcy proceedings, the development of which were as follows:–

On 9 November 2012, the Company subscribed for the 2012 SME private placement bonds of Inner Mongolia Nailun Agriculture Technology Corporation (內蒙古奈倫農業科技股份有限公司, hereinafter referred to as “Nailun Agriculture”), and Inner Mongolia Nailun Group Inc. (內蒙古奈倫集團股份有限公司, hereinafter referred to as “Nailun Group”) provided a full, unconditional and irrevocable joint liability guarantee in respect of the repayment of principal and interests of the bonds. An event of default occurred after the expiry of the bonds, and the Company initiated arbitration proceedings at South China International Economic and Trade Arbitration Commission in March 2015. In August 2015, South China International Economic and Trade Arbitration Commission delivered the verdict that Nailun Agriculture shall pay the Company the principal and interests of the bonds and the damages for breach of contract etc., amounting to approximately RMB10.49 million. In December 2015, the Company had applied to the court for compulsory enforcement, the procedures of which have not been completed yet at the moment.

On 29 March 2013, the Company acquired the 2012 SME private placement bonds of Huzhou Jintai Technology Company Limited (湖州金泰科技股份有限公司, hereinafter referred to as “Jintai Technology”) from Zheshang Futures Co., Ltd. (浙商期貨有限公司) with the principal amount of RMB6.5 million. Pan Jianhua (潘建華), chairman of Jintai Technology, provided an unconditional and irrevocable joint liability guarantee in respect of redeeming the bonds upon maturity. On 20 June 2014, the Company sold the aforesaid bonds it held back to Jintai Technology, but Jintai Technology failed to pay the principal and interests to the Company on 10 July 2014 pursuant to the contract. In October 2014, the Company initiated arbitration proceedings at China International Economic and Trade Arbitration. In June 2015, China International Economic and Trade Arbitration Commission delivered the verdict that Jintai Technology shall pay the principal of the bonds of RMB6.5 million as well as the interest and the overdue default penalty to the Company and that Pan Jianhua (潘建華) shall bear the joint liability for the aforementioned debts. Before then, the People’s Court of Wuxing District, Huzhou City has given judgment for the bankruptcy reorganization of Jintai Technology on 12 March 2015. On 10 June 2015, the Company submitted a claim to the administrator of Jintai Technology for an amount of approximately RMB7.54 million. Currently, there is no further progress regarding the bankruptcy reorganization case.

## Section 6 Other Significant Events

### III. Important contracts and their fulfillment

During the Reporting Period, the Company entered into a property leasing agreement with Wuxi Guolian Xincheng Investment Co., Ltd. (無錫國聯新城投資有限公司), the rental charges for 2016 were RMB6.3206 million and the term of the agreement had expired on 31 December 2016. The Company entered into a service agreement with China Telecom Corporation Limited Wuxi Branch (中國電信股份有限公司無錫分公司), whereby China Telecom Corporation Limited Wuxi Branch provided the service of business registration confirmation and the service charge was RMB5.00 million and the agreement will be valid until 31 December 2017. The Company entered into a sponsor agreement and underwriting agreement with Nanjing Securities Co., Ltd. (南京證券股份有限公司), in which it engaged Nanjing Securities Co., Ltd. to be the A share IPO sponsor institution and lead underwriter of the Company, and the sponsor charges and underwriting charges are RMB8.48 million and RMB55.12 million respectively.

### IV. Connected Transactions

Particulars of the major related party transactions of the Group for the year ended 31 December 2016 are set out in note 48 to the financial statement.

Certain transactions in the aforementioned related party transactions also constitute Connected Transactions as prescribed in Chapter 14A under the Listing Rules and are subject to reporting, annual review and announcement in accordance with the requirements of Chapter 14A under the Listing Rules, particulars of which are as follows:

#### (I) Continuing Connected Transactions

The Continuing Connected Transactions of the Group are mainly conducted with Guolian Group and its Associates. Guolian Group is the Controlling Shareholder of the Company. Under the Listing Rules, Guolian Group and its Associates are connected parties of the Group. Therefore, the agreements entered into between the Group and Guolian Group and its Associates constitute Connected Transactions under the Listing Rules. On 15 June 2015, the Group and Guolian Group entered into a series of framework agreements in relation to a number of Continuing Connected Transactions, namely the Securities and Financial Services Framework Agreement and the Property Leasing and Related Services Framework Agreement. The agreements came into force upon the listing of H Shares and will expire on 31 December 2017. On 3 June 2016, the Company, Guolian Group and Guolian Trust entered into a Supplemental Agreement to Securities and Financial Services Framework Agreement (the "Supplemental Agreement") in relation to the further agreement in providing securities and financial services by the Group. The Group has set up respective annual caps in relation to the Continuing Connected Transactions under the agreements in accordance with the requirements of the Listing Rules. As the applicable percentage ratio of the annual caps set up in accordance with the Listing Rules reaches 0.1% but is less than 5%, the Group is subject to the reporting, announcement and annual review requirements, but can be exempted from the independent shareholders' approval requirements.

## Section 6 Other Significant Events

### 1. Securities and Financial Services Framework Agreement and Supplemental Agreement

Pursuant to the Securities and Financial Services Framework Agreement, the Group provided a series of financial services to Guolian Group and its Associates on normal commercial terms or better, including (1) securities brokerage and Futures IB services; (2) asset management service; (3) agency sales service of financial products; and (4) financial advisory service. The service fees or commissions charged by the Group for the provision of financial services to Guolian Group and its Associates shall be determined based on arms' length negotiations according to the relevant laws and regulations and by reference to market price, and shall be not be less than the price paid for purchasing similar services from independent third parties. Pursuant to the Supplemental Agreement, in order to facilitate the business development of the Company, the Company agreed to appoint Guolian Trust to provide management services for trust plans to the Company based on its development needs, the management services fee for such trust plans shall be agreed by both parties according to normal commercial terms.

During the Reporting Period, the particulars of the commissions charged/paid by the Group for the provision of/receiving the securities and financial services to/from Guolian Group and its Associates were as follows:—

Unit: RMB'0,000

Item	2016 Annual Cap of Transaction Amount	2016 Actual Transaction Amount
Securities brokerage and Futures IB service	516	136.90
Asset management service	633	93.95
Agency sales service of financial products	2,000	329.77
Financial advisory service	240	44.21
Management services for trust plans	1,500	291.63

## Section 6 Other Significant Events

### 2. Property Leasing and Related Services Framework Agreement

Pursuant to the Property Leasing and Related Services Framework Agreement, the Group and Guolian Group agreed to determine the rental income of the leasing property and the respective service fees according to the relevant laws and regulations, and also the market reference price confirmed by property valuers.

During the Reporting Period, the particulars of the expenses of the Group incurred for renting/leasing the properties and receiving the related property services provided by Guolian Group and its Associates were as follows:-

Unit: RMB'0,000

Items	2016 Annual Cap of Transaction Amount	2016 Actual Transaction Amount
Rental expenses incurred for leasing the properties from Guolian Group and/or its Associates	1,600	1,378.34
Fee expense incurred for the related property services	550	215.54
Rental income received from leasing the properties to Guolian Group's Associates	400	97.52

The independent non-executive Directors of the Company have reviewed the aforesaid Continuing Connected Transactions and issued the following independent opinions on those Continuing Connected Transactions that they are being conducted:-

- (1) during the ordinary course of business of the Company;
- (2) on normal commercial terms or better;
- (3) according to relevant agreements of the transactions, the terms of which are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

## Section 6 Other Significant Events

The auditors engaged by the Company had issued a letter to the Board of the Company regarding their review of the aforesaid Continuing Connected Transactions and provided the following opinions:–

In respect of the disclosed Continuing Connected Transactions:–

- (1) Nothing has come to our attention that causes us to believe that such Continuing Connected Transactions as disclosed were not approved by the Board of the Company;
- (2) for the transactions involving the provision of services by the Group, nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, according to the pricing policy of the Group;
- (3) nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, according to the relevant transaction agreements;
- (4) for the purpose of the total amount of every Continuing Connected Transaction, nothing came to our attention that causes us to believe that the amount of such Continuing Connected Transactions had exceeded the annual cap set by the Company.

The Company has provided a copy of the letter from the auditors to the Stock Exchange and the Company confirmed that it had complied with all the disclosure requirements in relation to the disclosure of the Continuing Connected Transactions under Chapter 14A of the Listing Rules.

### (II) Other Connected Transactions

Hua Ying Securities acted as financial advisor and joint lead underwriter regarding the significant asset reorganization project in Huaguang Boiler.

On 2 December 2016, Hua Ying Securities entered into financial advisory agreement with Huaguang Boiler, pursuant to which, Hua Ying Securities will act as financial advisor of the significant asset reorganization project in Huaguang Boiler, and charged financial advisory expenses of RMB2.00 million.

On 2 December 2016, Hua Ying Securities entered into an underwriting agreement with Huaguang Boiler, pursuant to which, Huaguang Boiler engaged Hua Ying Securities to be the joint lead underwriter in respect of private offer of A Shares, and paid underwriting expenses of RMB13.00 million.

For the detailed information regarding those Connected Transactions, please refer to the announcements of the Company dated 2 December 2016.



## Section 6 Other Significant Events

As the applicable percentage ratios of this Connected Transaction (other than the profit ratio) calculated under the Listing Rules is more than 0.1% but less than 5%, the Group is subject to the reporting, announcement and annual review requirements, but can be exempted from the requirements of obtaining independent shareholders' approval. This Connected Transaction has been considered and approved by the Board of the Company, and the Company confirmed that it has complied with the all the disclosures requirements for such Connected Transactions under Chapter 14A of the Listing Rules.

### V. Bankruptcy reorganization, acquisitions, mergers and divisions

During the Reporting Period, the Company and its subsidiaries had not engaged in any bankruptcy reorganization, acquisitions, mergers or divisions.

### VI. Information about individual business qualifications obtained during the Reporting Period

During the Reporting Period, the information about individual business qualifications obtained by the Company were as follows:

Item No.	Name of qualification/ licence/approval	Licensed content	Certificate No.	Issuing authority	Issuing date
1	Notice Regarding the Approval of Authorization for the Hong Kong Stock Connect business under Shenzhen-Hong Kong Stock Connect for Members Such As Guoxin Securities (《關於同意開通國信證券等會員單位深港通下港股通業務交易權限的通知》)	Authorization for the Hong Kong Stock Connect business under Shenzhen Hong Kong Stock Connect of transaction units for companies	Shen Zheng Hui [2016] No. 326	Shenzhen Stock Exchange	3 November, 2016
2	IPO Offline List of Investors (《IPO網下投資者名錄》)	IPO offline qualified investors	Nil	SAC	29 March, 2016

### VII. Major Off-Balance-Sheet items

During the Reporting Period, the Company and its subsidiaries did not record any guarantees, mortgages or other major off-balance-sheet items that may affect the Company's financial position and operating results.

## Section 6 Other Significant Events

### VIII. Engagement and Dismissal of Certified Public Accountants

#### (I) Certified Public Accountants Currently Engaged by the Company

Name of Domestic Accounting Firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration of Domestic Accounting Firm	RMB1.03 million
Continuous Term of Audit Service of Domestic Accounting Firm	1 year
Name and Continuous Term of Service of Domestic Certified Public Accountants	Ma Qinghui (馬慶輝) : 1 year; Han Jian (韓健) : 1 year
Name of Overseas Accounting Firm	Deloitte Touche Tohmatsu
Remuneration of Overseas Accounting Firm	RMB70,000
Continuous Term of Audit Service of Overseas Accounting Firm	1 year
Name and Continuous Term of Service of Overseas Certified Public Accountant	Ma Qinghui (馬慶輝) : 1 year

In addition, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP as the A Share IPO accountant of the Company, providing auditing service for the A Share IPO reporting of the Company. Relevant audit expenses are RMB980,000.

#### (II) Change of Engagement of Certified Public Accountants by the Company in Recent Three Years

In January 2015, the Company engaged PricewaterhouseCoopers as the H Share IPO reporting accountant of the Company; In April 2015, the Company re-appointed Jiangsu Gongzheng Tianye Certified Public Accountants LLP as the domestic auditing institution of the Company, responsible for providing auditing services according to PRC CAS; After approval by the first extraordinary general meeting in 2016, the Company appointed PricewaterhouseCoopers as its external auditing institution, responsible for providing auditing and review services according to IFRS.

During the Reporting Period, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as its external auditing institutions, which are responsible for providing auditing and review services according to PRC CAS and IFRS respectively.

## Section 6 Other Significant Events

The main reasons for changing external auditing institutions of the Company were: (1) the term of the business agreement among the Company and PricewaterhouseCoopers and Jiangsu Gongzheng Tianye Certified Public Accountants LLP (江蘇公證天業會計師事務所) had expired; and (2) the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP as the A Share IPO reporting accountant of the Company in 2016. The Company decided to change the external auditing institutions to ensure the coherence and orderly implementation of all auditing works. PricewaterhouseCoopers and Jiangsu Gongzheng Tianye Certified Public Accountants LLP have confirmed that there are no material disagreements or outstanding matters between them and the Company.

### (III) Engagement of Certified Public Accountants by the Subsidiaries

In 2016, Hua Ying Securities appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP as its external auditing institution with an audit fee of RMB80,000.

In 2016, Guolian Capital re-appointed Jiangsu Gongzheng Tianye Certified Public Accountants LLP as its annual external auditing institution with an audit fee of RMB60,000.

## IX. Significant Subsequent Events

### (I) Changes Of Directors, Supervisors and Senior Management

During the Reporting Period, Mr. Chen Xingjun was appointed as the chief risk officer of the Company. He obtained the qualification of senior management of securities companies approved by Jiangsu Bureau on 20 January 2017. Since the same day, Ms. Chen Zhiying ceased to be Chief Risk Officer of the Company.

On 16 January 2017, Mr. Wang Wei tendered a letter of resignation in writing to the Board of the Company.

On 17 January 2017, Mr. Jiang Zhiqiang tendered a letter of resignation in writing to the Board and applied to resign as the vice president.

On 23 January 2017, the Board officially appointed Mr. Qin Shunda (秦順達) as the vice president of the Company. Mr. Qin Shunda obtained the qualifications of senior management of securities companies approved by Jiangsu Bureau on 20 January 2017.

## Section 6 Other Significant Events

At the special general meeting of the Company on 10 March 2017, Mr. Jiang Zhiqiang and Mr. Ren Jun were officially elected as the Supervisors of the 3rd session of the Supervisory Committee, and Mr. Lu Yuanzhu was elected as the independent non-executive Director of the 3rd session of the Board. At the same time, Ms. Wang Wei ceased to be independent non-executive Director. Mr. Ren Jun obtained the qualification of supervisor of securities companies approved by Jiangsu Bureau on 2 March 2017. Mr. Lu Yuanzhu obtained the qualifications of independent Director of securities companies approved by Jiangsu Bureau on 2 March 2017. Mr. Jiang Zhiqiang possesses the qualifications of senior management of securities companies, therefore he is not required to apply for the qualifications of supervisor of securities companies according to the requirements.

### (II) Proposed Annual Profit Distribution Proposal of the Company

The proposed annual profit distribution proposal for the year 2016 is set out in Section 5 of this report “III. Profit Distribution and Proposed Profit Distribution Proposal”.

### (III) Major Investing and Financing Activities

Nil

### (IV) Major Litigations and Arbitrations

Nil

### (V) Business Mergers or Disposals of Subsidiaries

Nil

### (VI) Other Events That May Have a Material Impact on the Financial Position, Operating Results and Cash Flows of the Company

Nil



## Section 6 Other Significant Events

### X. Important Matters or Major Subsequent Events of a Subsidiary

#### (I) Changes Of Directors, Supervisors and Senior Management

As Mr. Ding Ke (丁可), the former director and general manager and Ms. Yin Zhuowei (殷卓偉), the former Chairlady of the Supervisory Committee submitted their resignation, the shareholder meeting of Hua Ying Securities elected Mr. Wang Shiping (王世平) as a director and Mr. Ding Ke (丁可) as a supervisor on 10 January 2017. On the same day, the Board of Hua Ying Securities appointed Mr. Wang Shiping (王世平) as general manager and the Supervisory Committee of Hua Ying Securities elected Mr. Ding Ke (丁可) as the Chairman of the Supervisory Committee.

On 3 March 2017, the Board of Hua Ying Securities appointed Mr. Jiang Hongan (江紅安) as Chief Risk Officer and Ms. Chen Zhiying (陳志穎) ceased to be its Chief Risk Officer.

## Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

### I. Changes in Shares During the Reporting Period

During the Reporting Period, there was no change in the shares of the Company. As at the end of the Reporting Period, the total share capital of the Company was 1,902,400,000 shares, of which 1,459,760,000 shares were Domestic Shares and 442,640,000 Shares were H Shares.

### II. Shareholders as at the End of the Reporting Period

At the end of the Reporting Period, the Company had 130 registered shareholders, including 12 shareholders of Domestic Shares and 118 registered shareholders of H Shares.

At the end of the Reporting Period, the shareholdings of the top 10 shareholders were as follows:

Name of Shareholders	Nature of Shareholders	Number of Shares Held (Shares)	Percentages of Shares Held	Number of Shares changed during the Reporting Period (Shares)	Pledge or Freeze up over shares held (Shares)
Guolian Group	State-owned legal person	543,901,329	28.59%	-	Nil
HKSCC (Nominees) Limited (Note 1)	Overseas legal person	442,464,500	23.26%	-7,500	Nil
Guolian Trust	State-owned legal person	390,137,552	20.51%	-	Nil
Wuxi Electric	State-owned legal person	266,899,445	14.03%	-	Nil
Minsheng Investment	State-owned legal person	73,500,000	3.86%	-	73,500,000
Cotton Textile	State-owned legal person	72,784,141	3.83%	-	Nil
Guolian Environmental	State-owned legal person	29,113,656	1.53%	-	Nil
Wuxi Jinhong Telecommunications Group Co., Ltd. (無錫金鴻通信集團有限公司)	Domestic Non-state-owned legal person	24,000,000	1.26%	-	Nil
Jiangsu Xinfang	Domestic Non-state-owned legal person	22,500,000	1.18%	-	Nil
Wuxi Weifu High-technology Co.,Ltd.* (無錫威孚高科技集團股份有限公司)	Domestic Non-state-owned legal person	18,000,000	0.95%	-	Nil

Note 1: The shares held by HKSCC (Nominees) Limited are for the benefits of non-registered holders of H Shares.

## Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

At the end of the Reporting Period, Guolian Group, the Controlling Shareholder of the Company, directly held 28.59% of the shares in the Company, and indirectly control 43.76% of the Shares in the Company through Guolian Trust, Wuxi Electric, Minsheng Investment, Cotton Textile and Guolian Environmental, and thus holding 72.35% of the Shares in the Company in total.

### III. General Information on Shareholders Holding 10% or More of the Share of the Company

Guolian Group was established in December 1997, and is a wholly state-owned enterprise group contributed and organized by Wuxi State-owned Assets Supervision and Administration Commission of the State Council (hereinafter referred as "SASAC") with a state-owned asset investment qualification granted. Its registered capital is RMB8 billion. Guolian Group is mainly engaged in the management and operation of capital assets, agency investment, investment consultancy and investment service. The legal representative and general manager of Guolian Group are Mr. Gao Min and Mr. Hua Weirong, respectively.

Guolian Trust was established in January 1987, and is formerly known as Wuxi Trust Investment Company\* (無錫市信託投資公司). It was then renamed and transformed as a joint stock company with limited liability with a registered capital of RMB1.23 billion. Guolian Trust is principally engaged in trust services and direct investment. The legal representative and general manager of Guolian Trust are Mr. Zhou Weiping and Mr. Zhu Wenge respectively

Wuxi Electric was established in March 1986, and is an enterprise owned by the whole people with a registered capital of RMB319.506 million. Wuxi Electric is principally engaged in the planning and operation of municipal electric system and facilities. Mr. Hua Xiaofeng is both the legal representative and principal of Wuxi Electric.

## Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

### IV. Disclosure of Interests

As at 31 December 2016, to the knowledge of the Company's Directors after making reasonable enquiry, the following persons (not being the Directors, Supervisors or chief executives of the Company) have interests or short positions which shall be disclosed to the Company and recorded in the register required to be kept by the Company in the shares and underlying shares of the Company in accordance with Sections 2 and 3 of Part XV of the SFO and Section 336 of the SFO:

Name of Shareholders	Types of Shares	Nature of Interests	Number of Shares (Note 7)	Percentage of Total Number of Issued Shares of the Company (Note 8)	Percentage of Total Issued Domestic Shares/ H Shares of the Company (Note 8)
Guolian Group (Note1)	Domestic Shares	Beneficial Owner and Interest of Controlled Corporation	1,376,336,123 (L)	72.35%	94.29%
Guolian Trust	Domestic Shares	Beneficial Owner	390,137,552 (L)	20.51%	26.73%
Guolian Industrial (Note 2)	Domestic Shares	Interest of Controlled Corporation	266,899,445 (L)	14.03%	18.28%
Wuxi Electric	Domestic Shares	Beneficial Owner	266,899,445 (L)	14.03%	18.28%
Guolian Financial Investment (Note 3)	Domestic Shares	Interest of Controlled Corporation	73,500,000 (L)	3.86%	5.04%
Minsheng Investment	Domestic Shares	Beneficial Owner	73,500,000 (L)	3.86%	5.04%
Shanghai Chuang Ji Investment Center (Limited Partnership)* (上海創駿投資中心(有限合夥)) (Note 4)	H Shares	Interest of Controlled Corporation	19,439,000 (L)	1.02%	4.39%
Jiangsu Coastal Innovation Capital Management Limited* (江蘇沿海創新資本管理有限公司) (Note 5)	H Shares	Interest of Controlled Corporation	19,439,000 (L)	1.02%	4.39%
Coastal Capital Limited (Note 6)	H Shares	Beneficial Owner	19,439,000 (L)	1.02%	4.39%

Note 1: Guolian Group is the beneficial owner of 543,901,329 Domestic Shares of the Company, and is deemed to be interested in the following shares in controlled corporations: (i) 390,137,552 Domestic Shares of the Company held by Guolian Trust; (ii) 266,899,445 Domestic Shares of the Company held by Wuxi Electric; (iii) 73,500,000 Domestic Shares of the Company held by Minsheng Investment; (iv) 72,784,141 Domestic Shares of the Company held by Cotton Textile; and (v) 29,113,656 Domestic Shares of the Company held by Guolian Environmental.

Note 2: Guolian Industrial is deemed to be interested in the 266,899,445 Domestic Shares of the Company held by Wuxi Electric, its wholly-owned subsidiary.

Note 3: Guolian Financial Investment is deemed to be interested in the 73,500,000 Domestic Shares of the Company held by Minsheng Investment, its wholly-owned subsidiary.



## Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

Note 4: Shanghai Chuang Ji Investment Center (Limited Partnership)\* (上海創驥投資中心(有限合夥)) is deemed to be interested in the 19,439,000 H Shares of the Company held by Coastal Capital Limited, its wholly-owned subsidiary.

Note 5: The equity interest of Shanghai Chuang Ji Investment Center (Limited Partnership)\* (上海創驥投資中心(有限合夥)) is owed 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)) respectively. Jiangsu Coastal Industrial Investment Fund (Limited Partnership) is managed by Jiangsu Coastal Innovation Capital Management Limited\*. Accordingly, Jiangsu Coastal Innovation Capital Management Limited\* is deemed to be interested in the 19,439,000 H Shares of the Company held by Coastal Capital Limited.

Note 6: On 28 December 2016, Coastal Capital Limited made an interest declaration which disclosed that it reduced the holding of 9,560,500 shares of the Company through over-the-counter trading on 23 December 2016. The total number of H Shares that it held in the Company decreased from 28,999,500 before the change of equity to 19,439,000 after the change of equity, and its percentage to the issued H Shares declined from 6.55% before the change of equity to 4.39%.

Note 7: (L) denotes long positions.

Note 8: Up to 31 December 2016 and up to the date of this report, the Company issued 1,459,760,000 Domestic Shares and 442,640,000 H Shares in total. The total number of shares is 1,902,400,000.

Save as disclosed above, as at 31 December 2016, the Company is not aware of any other persons (excluding the Directors, Supervisors and chief executives of the Company) having the interests or short positions that are required to be recorded in the register in the shares or underlying shares of the Company under Section 336 of the SFO.

## V. Purchase, Sales or Repurchase of the Company's Listed Securities

During the Reporting Period, the Company and its subsidiaries did not repurchase, sell or redeem any of the listed securities of the Company.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### I. Changes in Shareholdings and Remuneration Information of Current and Resigned Directors, Supervisors and Senior Management During the Reporting Period

Name	Position	Gender	Age	Date of commencement and completion of employment	Shares held (H Shares)	Total remuneration received from the Company during the Reporting Period (In RMB ten thousands)	Remarks
<b>Directors</b>							
Yao Zhiyong	Executive Director	Male	45	16 June 2016 to 15 June 2019	-	95.43	-
	Chairman			16 June 2016 to 15 June 2019	-	-	-
Peng Yanbao	Executive Director	Male	50	16 June 2016 to 15 June 2019	-	90.68	-
	President			16 June 2016 to 15 June 2019	-	-	-
Hua Weirong	Non-executive Director	Male	51	16 June 2016 to 15 June 2019	-	N/A	-
Zhou Weiping	Non-executive Director	Male	48	16 June 2016 to 15 June 2019	-	N/A	-
Liu Hailin	Non-executive Director	Male	39	16 June 2016 to 15 June 2019	-	N/A	-
Zhang Weigang	Non-executive Director	Male	54	16 June 2016 to 15 June 2019	-	N/A	-
Wang Wei	Independent Non-executive Director	Male	58	16 June 2016 to 10 March 2017	-	12	Resigned on 16 January 2017 due to personal reasons, with effect from 10 March 2017
Chen Qingyuan	Independent Non-executive Director	Female	40	16 June 2016 to 15 June 2019	-	12	-
Lee Pak Hay	Independent Non-executive Director	Male	75	5 July 2016 to 15 June 2019	-	6	-
Lei Jianhui	Executive Director (Resigned)	Male	48	18 April 2013 to 15 March 2016	-	8.25	Resigned on 15 March 2016 due to personal reasons and formally effective
	President (Resigned)			2 May 2013 to 15 March 2016	-	-	
Jiang Zhijian	Non-executive Director (Resigned)	Male	49	18 April 2013 to 16 June 2016	-	N/A	Resigned on 16 June 2016 formally due to expiration of term of office
Fan, Yan Hok Philip	Independent Non-executive Director (Resigned)	Male	67	20 March 2015 to 5 July 2016	-	6	Resigned on 5 July 2016 formally due to expiration of term of office

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

Name	Position	Gender	Age	Date of commencement and completion of employment	Shares held (H Shares)	Total remuneration received from the Company during the Reporting Period (In RMB ten thousands)	Remarks
<b>Supervisors</b>							
Zhou Weixing	Shareholder Representative Supervisor	Male	54	16 June 2016 to 15 June 2019	-	N/A	-
Shen Ying	Employee Representative Supervisor	Female	48	16 June 2016 to 15 June 2019	-	20.93	-
Yu Lei	Employee Representative Supervisor	Female	43	16 June 2016 to 15 June 2019	-	28.86	-
Chen Xingjun	Chairman of Supervisory Committee and Shareholder Representative Supervisor (Resigned)	Male	35	28 June 2016 to 19 December 2016	-	-	Resigned on 19 December 2016 due to job re-designation and formally effective
Yin Zhuowei	Chairlady of Supervisory Committee and Employee Representative Supervisor (Resigned)	Female	54	18 April 2013 to 16 June 2016	-	11.88	Resigned on 16 June 2016 formally due to expiration of term of office
Yang Xiaojun	Shareholder Representative Supervisor (Resigned)	Male	44	16 June 2016 to 30 August 2016	-	N/A	Resigned on 30 August 2016 due to re-designation to national authority and formally effective
Jin Guoxiang	Shareholder Representative Supervisor (Resigned)	Male	56	18 April 2013 to 16 June 2016	-	N/A	Resigned on 16 June 2016 formally due to expiration of term of office
Shan Xudong	Employee Representative Supervisor (Resigned)	Male	55	18 April 2013 to 16 June 2016	-	7.20	Resigned on 16 June 2016 formally due to expiration of term of office

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

Name	Position	Gender	Age	Date of commencement and completion of employment	Shares held (H Shares)	Total remuneration received from the Company during the Reporting Period (In RMB ten thousands)	Remarks
<b>Senior Management</b>							
Jiang Zhiqiang	Vice President	Male	46	16 June 2016 to 17 January 2017	122,116 <sup>4</sup>	82.07	Resigned on 17 January 2017 due to job re-designation and formally effective
Li Zhengquan	Vice President and Secretary to the Board	Male	40	16 June 2016 to 15 June 2019	-	82.07	-
Yang Ming	Vice President	Male	35	19 September 2016 to 15 June 2019	-	40.69	-
Xu Faliang	Chief Compliance Officer	Male	52	16 June 2016 to 15 June 2019	-	80.07	-
Chen Zhiying	Chief Financial Officer Chief Risk Officer	Female	42	16 June 2016 to 15 June 2019 16 June 2016 to 20 January 2017	- -	69.20 -	Ceased on 20 January 2017 due to job re-designation

- Notes:
- No Director or Supervisor of the Company had once held any shares of the Company at the beginning and at the end of the Reporting Period.
  - During the Reporting Period, the Company did not implement any equity incentive schemes for the Directors, Supervisors or senior management of the Company.
  - During the Reporting Period, no non-cash remuneration was ever received by any Directors, Supervisors or senior management of the Company.
  - During the Reporting Period, Mr. Jiang Zhiqiang, vice president of the Company, held the H Shares of the Company purchased through QDII collective investment scheme in 2015 continuously, according to the percentage of his actual amount contributed to the collective investment scheme, the number of shares held by him after the translation was 122,116 H Shares.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### II. Positions held by Current Directors, Supervisors and Senior Management

#### (I) Positions held in the shareholders

Name	Name of companies under the Group	Position currently held	Date of commencement and completion of employment
Hua Weirong	Guolian Group	President	December 2015 to present
Zhou Weiping	Guolian Trust	Chairman	January 2014 to present
Liu Hailin	Jiangsu Xinfang	Assistant to Chairman of The Board and Deputy General Manager	August 2006 to present
Zhou Weixing	Wuxi Weifu High-technology Co., Ltd.*	Secretary to the Board and the Director of the Board office	June 2005 to present

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### (II) Positions held in other companies

Name	Name of other companies	Position held	Date of commencement and completion of employment
Yao Zhiyong	Hua Ying Securities	Chairman of the Board	May 2016 to present
Peng Yanbao	Hua Ying Securities	Director	April 2011 to present
	Zhonghai Fund	Director	May 2008 to present
Hua Weirong	Guolian Financial Holding Group Co., Limited	Chairman of the Board	March 2016 to present
	Jiangsu Asset Management Co., Ltd.*	Chairman of the Board	March 2014 to present
	Wuxi Baolian Investment Co., Ltd.*	Chairman of the Board	March 2016 to present
	Wuxi Delian Investment Co., Ltd.*	Chairman of the Board	March 2016 to present
	Wuxi Liantai Venture Capital Co., Ltd.*	Chairman of the Board	March 2016 to present
Zhang Weigang	Guolian Financial Investment	President	June 2012 to present
	Xinwu District branch office of Wuxi municipal branch of China Post Group Company* (中國郵政集團公司無錫市分公司新吳區分局)	Manager	February 2016 to present
Wang Wei	Wanmeng Investment Management Co. Ltd.	Chairman of the Board	March 1997 to present
	Credit China Holdings Limited	Independent Non-executive Director	July 2014 to present
Chen Qingyuan	Huayuan Property Co., Ltd.	Independent Director	November 2014 to present
	Neusoft Group Co., Ltd.	Independent Director	June 2015 to present
	Shanghai Chengtou Holding Co., Ltd.	Independent Director	June 2011 to present
	Lifan Industry (Group) Co., Ltd.*	Independent Director	December 2010 to present
	Bank of Suzhou Co., Ltd.	Independent Director	March 2016 to present
	Hua Ying Securities	Independent Director	April 2011 to present
	Guangcai International Investment Group Co., Ltd.*	Chief Financial Officer	July 2013 to present
Lee Pak Hay	Hua Ying Securities	Independent Director	April 2016 to present
Lee Pak Hay	TANG & Lawyers	Lawyer	December 2016 to present
Jiang Zhiqiang	Zhonghai Fund	Director	November 2011 to present
Li Zhengquan	Guolian Capital	Chairman of the Board	May 2012 to present
	SAC	Member of Professional Committee of Direct Investment Industry	July 2012 to present
Chen Zhiying	Jiangsu Equity Exchange Co., Ltd.	Director	October 2015 to present
	Hua Ying Securities	Chief Financial Officer	March 2015 to present
		Chief Risk Officer	March 2015 to March 2017

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### III. Remuneration Management Information of Directors, Supervisors and Senior Management

#### (I) Basis of Determination

The remuneration standards for Directors and Supervisors of the Company are determined in accordance with the level of the same industry and the practical situation of the Company, while the remuneration of senior management is decided by the remuneration system of the Company and is determined based on position and performance.

#### (II) Decision-making Procedures

The non-executive Directors and non-employee Supervisors of the Company do not receive any remuneration from the Company. The remuneration of independent non-executive Directors of the Company is determined by submitting to General Meetings for consideration after reviewing by the Remuneration and Nomination Committee and the Board with reference to industry average norm. The remuneration of executive Directors of the Company is determined after reviewing by the Remuneration and Nomination Committee and the Board and submitting for approval at the General Meetings. The remuneration of employee Supervisors of the Company is determined after reviewing by the Supervisory Committee and submitting for approval at General Meetings. The remuneration of senior management of the Company is determined under the remuneration assessment system of the Company and submitting to the Board of the Company for approval.

#### (III) Non-cash Remuneration Information

During the Reporting Period and up to the date of this report, the Company does not have any equity incentive system. The Directors, Supervisors and senior management of the Company did not hold any shares or options of the Company through the Company's equity incentive system.

#### (IV) Information of Remuneration Payment to Directors, Supervisors and Senior Management

For details regarding the information of payment to remuneration Directors, Supervisors and senior management of the Company, please refer to the "Changes in Shareholdings and Remuneration Information of Current and Resigned Directors, Supervisors and Senior Management during the Reporting Period" (《現任及報告期內離任董事、監事和高級管理人員持股變動及報酬情況》) under this section. The total remuneration of Directors, Supervisors and senior management of the Company in 2016 is RMB10,880,000. For the list of top five staff with highest remuneration and the category of remuneration of senior management, please refer to the note 12 to consolidated financial statements in this report.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### IV. Changes of Directors, Supervisors and Senior Management During the Reporting Period

#### (I) Changes of Directors

On 28 January 2016, the Company convened the first extraordinary General Meeting of 2016, and elected Mr. Zhang Weigang as a non-executive Director of the second session of the Board., Mr. Zhang Weigang obtained the qualification to be a director of securities companies and commenced office on 14 February 2016.

On 15 March 2016, Mr. Lei Jianhui resigned as an executive Director of the Company.

On 16 June 2016, the Company convened the 2015 annual General Meeting, and elected Mr. Yao Zhiyong, Mr. Peng Yanbao, Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin, Mr. Zhang Weigang, Mr. Wang Wei, Ms. Chen Qingyuan and Mr. Lee Pak Hay, as Directors of the third session of the Board. Among them, Mr. Peng Yanbao, Mr. Zhou Weiping and Mr. Lee Pak Hay were newly appointed Directors. Mr. Peng Yanbao and Mr. Zhou Weiping had obtained the qualification to be a director of securities companies on 16 June 2016 and commenced office since 16 June 2016. Mr. Jiang Zhijian and Mr. Fan, Yan Hok Philip ceased to be the Directors of the Company due to expiration of term of office. Mr. Lee Pak Hay obtained the qualification to be an independent director of securities companies on 5 July 2016 and replaced Mr. Fan, Yan Hok Philip to perform the duties of independent non-executive Director.

#### (II) Changes of Supervisors

On 18 May 2016, the Company convened employee representatives meeting, and elected Ms. Shen Ying and Ms. Yu Lei, as employee representative Supervisors of the third session of the Supervisory Committee of the Company.

On 16 June 2016, the Company convened the 2015 annual General Meeting, and elected Mr. Chen Xingjun, Mr. Yang Xiaojun and Mr. Zhou Weixing as shareholder representative Supervisors of the Company, who, together with the employee representative Supervisors, Shen Ying and Yu Lei, constitute the third session of the Supervisory Committee of the Company. Among them, Mr. Chen Xingjun was newly appointed Supervisor and was elected as chairman of the Supervisory Committee by the Supervisory Committee on the same day. Mr. Chen Xingjun obtained the qualification to be the chairman of the Supervisory Committee of securities companies and commenced office on 28 June 2016. The former employee representative Supervisors, Ms. Yin Zhuowei and Mr. Shan Xudong, as well as the former shareholder representative Supervisor, Mr. Jin Guoxiang, ceased to be Supervisors of the Company due to expiration of term of office.





## Section 8 Information of Directors, Supervisors, Senior Management and Staff

On 30 August 2016, Mr. Yang Xiaojun resigned as Supervisor due to re-designation as officer of national authority and therefore unable to be the Supervisor of the Company.

On 19 December 2016, Mr. Chen Xingjun resigned as Supervisor and chairman of the Supervisory Committee of the Company due to job re-designation.

### (III) Changes of Senior Management

On 15 March 2016, Mr. Lei Jianhui resigned as president of the Company due to personal reasons.

On 16 March 2016, the 25th meeting of the second session of the Board resolved to authorize Mr. Yao Zhiyong to perform the duties of the president.

On 16 May 2016, the 28th meeting of the second session of the Board resolved to engage Mr. Peng Yanbao as President of the Company and Mr. Yao Zhiyong ceased to perform the duties of president.

On 16 June 2016, the 1st meeting of the third session of the Board resolved to engage Mr. Peng Yanbao as the president of the Company, Mr. Jiang Zhiqiang as the vice president of the Company, Mr. Li Zhengquan as the vice president of the Company and secretary to the Board, Mr. Xu Faliang as the chief compliance officer of the Company and Ms. Chen Zhiying as the chief financial officer and chief risk officer of the Company.

On 31 July 2016, the 2nd meeting of the third session of the Board resolved to engage Mr. Yang Ming as vice president of the Company. Mr. Yang Ming obtained the qualification as the senior management of securities companies on 19 September 2016 and commenced his office.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### V. Biographies of Directors, Supervisors and Senior Management

#### (I) Directors

Mr. Yao Zhiyong (姚志勇), aged 45, is currently the chairman of the Board of the Company and became the executive Director of the Company since August 2012. Mr. Yao has approximately 22 years of experience in the financial industry, including securities and financial investment, and 16 years of experience in corporate management. Mr. Yao joined the Company in August 1994 and served successively as a sales clerk of Wuxi Securities Company\* (無錫市證券公司) (the predecessor of the Company), a floor trader stationed at the Shanghai Stock Exchange and an office director of branch 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 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 Guolian Financial Investment as the assistant to 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 from July 2010 to July 2015 and a director of Hua Ying Securities from February 2013 to May 2016. Mr. Yao became the chairman of the Board of Hua Ying Securities since May 2016 to date. Mr. Yao graduated from Dalian University of Technology (大連理工大學) 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) in June 2004.

Mr. Peng Yanbao (彭焰寶), aged 50, is currently the president of the Company and became the executive Director of the Company since June 2016 to date. Mr. Peng joined the Company in April 1994 and served as a floor trader, an investment manager and the general manager of the securities investment department of the Company from April 1994 to December 1999 and from January 2009 to October 2009, respectively. Before joining the 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 served as vice president of the Company from August 2009 to May 2016. Mr. Peng graduated from Tsinghua University (清華大學) with a bachelor's degree of engineering majoring in internal combustion engine in July 1990.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Hua Weirong (華偉榮), aged 51, is currently the president of Guolian Group and became non-executive Director of the Company since May 2008. Mr. Hua has approximately 31 years of experience in the financial industry. Mr. Hua joined the Company in January 2002 and served as a Director and the general manager of the Company from January 2002 to December 2004. Before joining the 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 from July 1986 to December 1991. He then worked in Guolian Trust as a department manager, an assistant to general manager and a deputy general manager 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 was the chairman of the board of directors from January to December 2015; a director of Wuxi Rural Commercial Bank Co., Ltd. (無錫農村商業銀行股份有限公司) from November 2008 to June 2016 and a director of Jiangsu Yixing Rural Commercial Bank Co., Ltd. (江蘇宜興農村商業銀行股份有限公司) from September 2010 to June 2016; a director and the chairman of the board of directors of Jiangsu Asset Management Co., Ltd.\* (江蘇資產管理有限公司) from May 2013 to March 2014 and since March 2014 respectively. Mr. Hua has also served as a vice president of Guolian Group from November 2004 to December 2015. 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 to March 2016. He has served as the chairman of the board of directors of Guolian Life Insurance Co., Ltd.\* (國聯人壽保險股份有限公司) from May 2015 to August 2016. He has also served as the president of Guolian Financial Investment since June 2012; concurrently, the chairman of the board of directors of Wuxi Baolian Investment Co., Ltd., Wuxi Delian Investment Co., Ltd., Wuxi Liantai Venture Capital Co., Ltd. and Guolian Financial Holding Group Co., Limited (國聯金融控股集團有限公司) since March 2016 respectively. Mr. Hua graduated from Suzhou University (蘇州大學) with a bachelor's degree in economics majoring in finance in July 1986 and then obtained an executive master's degree of business administration from Cheung Kong Graduate School of Business (長江商學院) in October 2009. Mr. Hua qualified as a senior accountant by Human Resource Bureau of Jiangsu Province in November 2004.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Zhou Weiping (周衛平), aged 48, is currently the chairman of the board of Guolian Trust and became non-executive Director of the Company since June 2016. Mr. Zhou served as an accountant at Wuxi Mineral Exploration Machinery Factory\* (無錫市探礦機械總廠) from August 1991 to March 1993; the finance manager at Wuxi Hengda Securities Co., Ltd.\* (無錫恆達證券公司) from March 1993 to February 1996; thereafter the deputy manager of Shanghai Handan Road Branch of Wuxi Trust Investment Co., Ltd.\* (無錫市信託投資公司) from February 1996 to May 1997; deputy manager and manager of Kaixin Securities Branch of Wuxi Trust Investment Co., Ltd. from May 1997 to December 2001 successively; general manager of Xianqiandong Street Branch of the Company from January 2002 to December 2002; general manager of Brokerage Department of the Company from January 2003 to May 2003; general manager of Wuxi Guolian Futures Brokerage Co., Ltd.\* (無錫國聯期貨經紀有限公司, hereinafter referred as “Wuxi Guolian Futures”) from May 2003 to January 2008; the finance manager of Guolian Group and chairman of the board of Wuxi Guolian Futures from February 2008 to March 2013. Mr. Zhou once acted as the executive director, president, chief executive officer and chief financial officer of Suntech Power Holdings Co., Ltd. from March 2013 to December 2013. Mr. Zhou graduated from Southeast University (東南大學) with a master’s degree in business administration in March 2002 and is qualified as an accountant in the PRC.

Mr. Liu Hailin (劉海林), aged 39, is currently assistant to chairman of the board of directors and the deputy general manager of Jiangsu Xinfang and became the non-executive Director of the Company since May 2008. Mr. Liu has approximately 16 years of experience in corporate management. Before joining the Group, he started his career and consecutively served in Jiangsu Xinfang as a technician, the head of workshop and a deputy general manager from August 2000 to July 2006. Mr. Liu obtained a bachelor’s degree of management majoring in accounting from Jiangnan University (江南大學) in January 2008.

Mr. Zhang Weigang (張偉剛), aged 54, is currently the manager of Xinwu District branch office of Wuxi municipal branch of China Post Group Company\* (中國郵政集團公司無錫市分公司新吳區分局) and became the non-executive Director of the Company since February 2016, and has over 21 years of experience in management. During the period from November 1998 to December 2003, Mr. Zhang served as the director of Xinan Center Branch of Wuxi Postal Office\* (無錫郵政局, “Wuxi Postal Office”), the manager of the property company and the general manager of Wuxi Postal Communication Development Company\* (無錫郵政局通信發展公司) and the deputy director of the management service department and the multi-function department, the director of the telecommunication business department of Wuxi Postal Office and general manager of Wuxi Postal Communication Development Company. He acted as the general manager of Wuxi Jinhong Telecommunications Group Co., Ltd.\* (無錫金鴻通信集團有限公司) from December 2003 to July 2015. He acted as the director of the logistics service center of Wuxi municipal branch of China Post Group Company from July 2015 to February 2016. Before that, he served as the director of offices of Wuxi Postal Office. Mr. Zhang obtained a bachelor’s degree in management engineering from Nanjing Forestry University in July 2001.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Wang Wei (王巍), aged 58, is currently the chairman of the Board of Wanmeng Investment Management Co. Ltd., independent non-executive Director of Credit China Holdings Limited, independent Director of Huayuan Property Co., Ltd., independent Director of Neusoft Group Co., Ltd., independent Director of Shanghai Chengtou Holding Co., Ltd., independent Director of Lifan Industry (Group) Co., Ltd., independent Director of Bank of Suzhou Co., Ltd. and independent Director of Hua Ying Securities, and became the independent non-executive Director of the Company since March 2015. Mr. Wang has acted as assistant research fellow of the International Financial Research Institute of the Head Office of the Bank of China (中國銀行總行國際金融研究所), analyst of JP Morgan Chase Bank, adviser to the World Bank and vice president of China Southern Securities Co., Ltd.; Mr. Wang also served as independent director of China Sports Industry Group Co., Ltd. from September 2005 to April 2012; independent director of China Everbright Bank Company Limited from May 2008 to January 2014. Mr. Wang graduated from the Financial Research Institute of the People's Bank of China (中國人民銀行金融研究所) in 1985 with a master's degree in economics and also obtained a Ph.D. in economics from the Graduate School of Arts and Sciences of Fordham University in May 1992.

Ms. Chen Qingyuan (陳清元), aged 40, is currently the chief financial officer of Guangcai International Investment Group Co., Ltd.\* (光彩國際投資集團有限公司) and became the independent non-executive Director of the Company since October 2014. Ms. Chen 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. Then, she 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. She also acted as the independent Director of Hua Ying Securities since April 2016. Ms. Chen graduated from Hunan Normal University (湖南師範大學) 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) in December 2009. Ms. Chen was qualified as a Chinese Certified Public Accountant (中國註冊會計師協會) granted by the Chinese Institute of Certified Public Accountants\* (中國註冊會計師) in April 2007.

Mr. Lee Pak Hay, aged 75, is currently a lawyer of TANG & Lawyers and became independent non-executive Director of the Company since July 2016. Mr. Lee acted as sales manager of Credit Factoring International (Hong Kong) Limited from September 1974 to July 1975; director of Bunnan Tong & Company Limited from July 1975 to May 1990; then director of Novel Year Company Limited from July 1990 to August 1996; human resources manager of Chun Wo Construction and Engineering Company Limited from September 1996 to April 2000; also a lawyer of Au-Yeung, Cheng, Ho & Tin from September 2011 to October 2013. Mr. Lee successively obtained Bachelor's degree of Arts (Honours), Diploma in Management and Ph.D. Degree in Law from The University of Hong Kong in 1966, Hong Kong Polytechnic University in 1976 and City University of Hong Kong in 2011. Mr. Lee is also a solicitor of the High Court of Hong Kong and the member of the Australian Institute of Management, the Chartered Management Institute of the United Kingdom and the International Talent Management Institute.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### (II) Supervisors

Mr. Zhou Weixing (周衛星), aged 54, is currently the secretary to the board of directors and the director of the board office of Wuxi Weifu High-technology Co., Ltd.\* (無錫威孚高科技集團股份有限公司, "Weifu High-technology") and has been a shareholder representative Supervisor of the Company since August 2013. Before joining the Company, Mr. Zhou successively served as the deputy director, director and the securities representative of the securities department in Weifu High-technology since December 1993. Mr. Zhou graduated from Jilin University (吉林大學) with a bachelor's degree in economics majoring in national economic management in July 1985.

Ms. Shen Ying (沈穎), aged 48, currently acts the audit manager of the audit and supervision department of the Company and became the employee representative Supervisor of the Company since June 2016. Before joining the Company, Ms. Shen was a personnel of the financial department of Wuxi Mechanical and Electrical Equipment Co., Ltd.\* (無錫市機電設備有限公司) from July 1987 to March 1994. Mr. Shen then consecutively acted as the financial manager of several securities branches and the financial head of accounting department of the Company since April 1994. Ms. Shen graduated from Southwest University of Science and Technology with a bachelor's degree in June 2006 and also owns the intermediate accountant certificate.

Ms. Yu Lei (虞蕾), aged 43, currently acts as the responsible person for the accounting division of the financial and accounting department of the Company and became the employee representative Supervisor of the Company since June 2016. Ms. Yu joined our Company in July 1993 and consecutively acted as the accountant of the securities branch, the audit person of the audit department, the financial manager of the securities branch and the general accountant of the financial and accounting department of the Company from July 1993 to December 2014. Ms. Yu graduated from Shanghai University of Finance and Economics with a bachelor's degree in July 2000 and also owns the intermediate accountant certificate.

### (III) Senior Management

Mr. Jiang Zhiqiang (江志強), aged 46, is currently the Vice President of the Company. Mr. Jiang 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 the Company from October 1993 to May 2012. Mr. Jiang has been a director of Zhonghai Fund since November 2011. Mr. Jiang graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) 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) in April 2005.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Li Zhengquan (李正全), aged 40, is currently the Vice President of the Company and secretary to the Board. Mr. Li served as the assistant president of the Company from July 2011 to December 2012. Before joining the 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 (無錫市委研究室) from December 2006 to June 2011; 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; served as a director of Jiangsu Equity Exchange Co., Ltd. since October 2015. Mr. Li obtained a doctor's degree in economics from Peking University (北京大學) in July 2005.

Mr. Yang Ming (楊明), aged 35, is currently the Vice President of the Company. Mr. Yang served as the investment manager of Shenyin & Wanguo Securities Co., Ltd. from May 2008 to August 2010; fund manager of Da Cheng Fund Management Co., Ltd. from August 2010 to June 2011; thereafter the department manager and investment manager of Fortune SG Fund Management Co., Ltd.\* (華寶興業基金管理有限公司) from June 2011 to January 2014. He was also senior vice president for business of Taiping Asset Management Company Limited from February 2014 to June 2016. Mr. Yang graduated from the University of Durham, UK and obtained a Master's Degree in Finance and Investment in January 2008.

Mr. Xu Faliang (徐法良), aged 52, is currently the Chief Compliance Officer of the Company. Mr. Xu joined the 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 subsequently acted as the general manager of Audit Department of the Company from January 2006 to December 2015. 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 to November 2016. Prior to that, he also served as the chairman of its supervisory committee of Guolian Futures. Mr. Xu obtained a bachelor's degree in finance from Central Radio & Television University (中央廣播電視大學) in October 2005.

Ms. Chen Zhiying (陳志穎), aged 42, is currently the Chief Financial Officer and Chief Risk Officer of the Company. Ms. Chen served as a chief accountant of Guolian Group from July 1998 to December 2004; then served as the general manager of Financial and Accounting Department of the 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. She also served as the Chief Risk Officer of Hua Ying Securities from March 2015 to March 2017. Ms. Chen served as Chief Financial Officer of Hua Ying Securities since March 2015. Ms. Chen graduated from Nanjing University of Science and Technology (南京理工大學) with a bachelor's degree in economics majoring in accounting in July 1998 and obtained a master's degree of business administration from Southeast University (東南大學) in June 2011.

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### VI. Information about Staff and Remuneration of The Company and Major Subsidiaries

#### (I) Number and Composition of Staff of the Company and Major Subsidiaries

##### 1. Number and Composition of Staff of the Company

As at the end of the Reporting Period, the Company had a total of 1,330 staff, the composition of which is as follows:

Item		Headcount	Percentage
Professional structure	Research personnel	40	3.01%
	Investment bank personnel (OTC market)	45	3.38%
	Brokerage business personnel	844	63.46%
	Assets management business personnel	55	4.14%
	Securities investment	9	0.68%
	Financial personnel (including liquidation)	38	2.86%
	Information technology personnel	53	3.98%
	Audit and risk control	28	2.11%
	Credit transaction	15	1.13%
	Institutions business	148	11.13%
	Internet finance business	16	1.20%
	Administrative management	35	2.63%
Others	4	0.30%	
Total staff		1,330	100.00%
Education standard	College Degree or below	111	8.35%
	Bachelor's Degree	882	66.32%
	Master's Degree	333	25.04%
	Doctoral Degree	4	0.30%
Total staff		1,330	100.00%



## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### 2. Number and Composition of Staff in the Subsidiary, Hua Ying Securities

As at the end of the Reporting Period, the Hua Ying Securities had a total of 170 staff, the composition of which is as follows:

Item		Headcount	Percentage
Professional structure	Investment bank personnel	142	83.53%
	Finance personnel	4	2.35%
	Information technology personnel	2	1.18%
	Human Resources and Administration and Compliance personnel	16	9.41%
	Corporate Management	6	3.53%
	Total	170	100%
Education standard	College Degree or below	7	4.12%
	Bachelor's Degree	31	18.24%
	Master's Degree	131	77.06%
	Doctoral Degree	1	0.59%
	Total	170	100%

## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### 3. Number and Composition of Staff in the Subsidiary, Guolian Capital

As at the end of the Reporting Period, Guolian Capital had a total of 7 staff.

Item		Headcount	Percentage
Professional structure	Finance personnel	0	0.00%
	Human Resources and Administration and Compliance personnel	1	14.29%
	Sales personnel	5	71.43%
	Corporate management	1	14.29%
	Total	7	100.00%
Education standard	College Degree or below	0	0.00%
	Bachelor's Degree	6	85.71%
	Master's Degree	1	14.29%
	Doctoral Degree	0	0.00%
Total	7	100.00%	

### (II) Staff Remuneration

The staff remuneration of the Company comprises basic salary, performance-based salary and welfare. The basic salary is relatively a fixed part of remuneration, and performance-based salary is drawn from annual profit and distributed according to the results of performance evaluation in favor of the front-line employees and employees with outstanding performance. The Company provided employees with statutory welfare such as social insurance and housing provident fund according to relevant state provisions. Moreover, it offered employees group annuity insurance, staff hospitalization medical mutual insurance, etc to improve their welfare benefits.



## Section 8 Information of Directors, Supervisors, Senior Management and Staff

### VII. Information about Customer Solicitation and Customer Service of Commission Brokers

As of 31 December 2016, 55 branches of the Company have commissioned securities brokers to engage businesses, such as customer solicitation and so on, and 559 brokers in total have signed Securities Brokers Agency Contract (《證券經紀人委託代理合同》) with the Company.

The Company achieved concentrated and unified management for securities brokers through well-established and effective management system. The system covers qualification management for brokers, agency contract management, training management, file management, behavioral code, customer feedback and complaint management, abnormal transaction monitoring, accountability, performance evaluation, etc., and set up procedures for approval and operation. The Company and each of the branches perform their own responsibilities and monitor each other, and ensure the normativity and effectiveness of the management by regular inspection and non-scheduled spot-check.

During the Reporting Period, each of the branches of the Company has conducted securities broker business pursuant to the systematic requirements of the Company strictly and each of the systems has been properly materialized during the implementation process. Broker team played a positive role in market expansion and customer development of the Company and has met its expectation.

## Section 9 Corporate Governance Report

The Company has adopted various policies and terms of reference to ensure compliance with the code provisions of Corporate Governance Code under Appendix 14 of the Listing Rules.

### I. Corporate Governance Overview

As a company established in the mainland of China in which its H Shares are listed in the Hong Kong Stock Exchange, the Company has operated in strict compliance with laws, regulations and normative documents at the jurisdictions of establishment and listing, and kept committed to maintaining and improving its sound social image. Pursuant to the Company Law, the Securities Law and other applicable laws, regulations and regulatory provisions, the Company has formed a corporate governance structure under which the General Meeting, Board, Supervisory Committee, and the management have their respective authorities and duties, so as to ensure regulated operation of the Company. The convening and voting procedures for General Meetings and meetings of the Board and Supervisory Committee are legal and valid; the information disclosed by the Company is true, accurate and complete and is disclosed in time; the management of investor relations is efficient and practical; and the corporate governance is based on scientific, rigorous and normative procedures. As at the end of the Reporting Period, the Company has strictly complied with and observed all the provisions and principles of the CG Code and satisfied with most of the requirements for recommended best practices specified in the CG Code.

### II. General Meetings, Board Meetings, Supervisory Committee Meetings and Resolutions during the Reporting Period

In this year, the Company convened the first extraordinary General Meeting of 2016, the 2015 annual General Meeting, the second extraordinary General Meeting of 2016, the first domestic shares General Meeting, the first H shares General Meeting, the third extraordinary General Meeting of 2016, the second domestic shares General Meeting, the second H shares General Meeting, twelve board meetings and six Supervisory Committee meetings.

#### (I) General Meetings

##### 1. The first extraordinary General Meeting of 2016

The first extraordinary General Meeting of 2016 was convened on 28 January 2016, which considered and approved the followings: Resolution on Authorization of Corporate Onshore and Offshore Debt Financing (《關於公司境內外債務融資授權的議案》); Resolution on Establishment of a Subsidiary in Hong Kong (《關於設立香港子公司的議案》); Resolution on Engagement of International Audit Institutions of 2015 (《關於聘請2015年度國際審計機構的議案》); Resolution on Appointment of Non-executive Directors (《關於委任非執行董事的議案》).

## Section 9 Corporate Governance Report

### 2. The 2015 annual General Meeting

The 2015 annual General Meeting was convened on 16 June 2016, which considered and approved the followings: Report of the Board of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度董事會工作報告》); Report of the Supervisory Committee of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度監事會工作報告》); Annual Report of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年年度報告》); Financial Final Accounts Report of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度財務決算報告》); Profit Distribution Proposal of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度利潤分配預案》); Resolution on Remuneration Distribution of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度薪酬分配議案》); Resolution on Change of Annual Audit Institutions(《關於變更年度審計機構的議案》); Resolution on Nomination of Members for the 3rd Session of the Board of Guolian Securities Co., Ltd.(《關於提名國聯證券股份有限公司第三屆董事會成員的議案》); Resolution on Nomination of Shareholder Representative Supervisor Candidates for the 3rd Session of the Supervisory Committee of Guolian Securities Co., Ltd.(《關於提名國聯證券股份有限公司第三屆監事會股東代表監事候選人的議案》); Resolution on the General Mandate to Issue Domestic Shares by Guolian Securities Co., Ltd.(《關於國聯證券股份有限公司發行內資股一般性授權的議案》).

## Section 9 Corporate Governance Report

### 3. The second extraordinary General Meeting of 2016

The second extraordinary General Meeting of 2016 was convened on 29 July 2016, which considered and approved the followings:

Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on the Authorization to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Three-year Dividend Return Plan after the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年分紅回報規劃的議案》); Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares) (《關於修訂〈國聯證券股份有限公司章程〉(A+H股)的議案》); Resolution on the Amendments to the Rules of Procedure of the General Meeting of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司股東大會議事規則〉的議案》); Resolution on the Amendments to the Rules of Procedure of the Board of Directors of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司董事會議事規則〉的議案》); Resolution on the Amendments to the Rules of Procedure of the Supervisory Committee of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司監事會議事規則〉的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Share Price Stabilising Plan of the Company within Three Years After the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering of A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》); Resolution on the Formulation of the Policy on the Management of Proceeds of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司募集資金管理制度〉的議案》); Resolution on the Amendments to the Policy on the Management of Connected Transactions of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司關聯交易控制辦法〉的議案》); Resolution on the Formulation of the Policy on the Supervision and Management of the External Investment of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司對外投資監督管理制度〉的議案》); Resolution on the Formulation of the Policy on the Management of the External Guarantee of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司對外擔保管理制度〉的議案》); Resolution on the Engagement of Audit Institutions for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於聘請國聯證券股份有限公司首次公開發行A股股票並上市的審計機構的議案》); Resolution on the Change of Use of the Proceeds Raised from the Initial Public Offering of H Shares (《關於變更H股首次公開發行募集資金部分用途的議案》).

## Section 9 Corporate Governance Report

### 4. The First Domestic Shares General Meeting of 2016

The first Domestic Shares General Meeting of 2016 was convened on 29 July 2016, which considered and approved the followings: Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on the Authorization to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Share Price Stabilising Plan of the Company within Three Years After the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering of A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》).

### 5. The First H Shares General Meeting of 2016

The first H Shares General Meeting of 2016 was convened on 29 July 2016, which considered and approved the followings: Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on the Authorization to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Share Price Stabilising Plan of the Company within Three Years After the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering of A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》).

## Section 9 Corporate Governance Report

### 6. The Third Extraordinary General Meeting of 2016

The third extraordinary General Meeting of 2016 was convened on 19 September 2016, which considered and approved the followings:

Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on the Authorization to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Share Price Stabilising Plan of the Company within Three Years After the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering of A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》); Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. and Synchronous Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂<國聯證券股份有限公司章程>和同步修訂<國聯證券股份有限公司章程>(A+H股·草案)的議案》); Resolution on the Amendments to the Appendix of the Articles of Association of Guolian Securities Co., Ltd., the Rules of Procedures of the General Meeting of Guolian Securities Co., Ltd. and Synchronous Amendments to the Appendix of the Articles of Association of Guolian Securities Co., Ltd., the Rules of Procedures of the General Meeting of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂<國聯證券股份有限公司章程>的附件<國聯證券股份有限公司股東大會議事規則>和同步修訂<國聯證券股份有限公司章程>(A+H股·草案)的附件<國聯證券股份有限公司股東大會議事規則>的議案》).



## Section 9 Corporate Governance Report

### 7. The Second Domestic Shares General Meeting of 2016

The second Domestic Shares General Meeting of 2016 was convened on 19 September 2016, which considered and approved the followings:

Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on the Authorization to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Share Price Stabilising Plan of the Company within Three Years After the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering of A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》); Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. and Synchronous Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司章程〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的議案》); Resolution on the Amendments to the Appendix of the Articles of Association of Guolian Securities Co., Ltd., the Rules of Procedures of the General Meeting of Guolian Securities Co., Ltd. and Synchronous Amendments to the Appendix of the Articles of Association of Guolian Securities Co., Ltd., the Rules of Procedures of the General Meeting of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司章程〉的附件〈國聯證券股份有限公司股東大會議事規則〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的附件〈國聯證券股份有限公司股東大會議事規則〉的議案》).

## Section 9 Corporate Governance Report

### 8. The Second H Shares General Meeting of 2016

The second H Shares General Meeting of 2016 was convened on 19 September 2016, which considered and approved the followings:

Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on the Authorization to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Share Price Stabilising Plan of the Company within Three Years After the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering of A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》); Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. and Synchronous Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司章程〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的議案》); Resolution on the Amendments to the Appendix of the Articles of Association of Guolian Securities Co., Ltd., the Rules of Procedures of the General Meeting of Guolian Securities Co., Ltd. and Synchronous Amendments to the Appendix of the Articles of Association of Guolian Securities Co., Ltd., the Rules of Procedures of the General Meeting of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司章程〉的附件〈國聯證券股份有限公司股東大會議事規則〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的附件〈國聯證券股份有限公司股東大會議事規則〉的議案》).



## Section 9 Corporate Governance Report

### (II) Board Meetings

#### 1. The 24th Meeting of the 2nd Session of the Board

The 24th meeting of the 2nd session of the Board was convened on 25 February 2016, which considered and approved the followings: Resolution on New Establishment of Branches Offices for the Year 2016(《關於2016年度新設分公司的議案》); Resolution on New Establishment of Branches for the Year 2016(《關於2016年度新設營業網點的議案》); Resolution on Remuneration Distribution of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度薪酬分配議案》); Resolution on the Amendments to the Terms of Reference and Procedures of the Audit Committee of the Board of the Company(《關於修訂公司<董事會審計委員會職權範圍及程序>的議案》).

#### 2. The 25th Meeting of the 2nd Session of the Board

The 25th meeting of the 2nd session of the Board was convened on 16 March 2016, which considered and approved the following: Resolution on Authorisation of Performance of the President's Duties by Mr. Yao Zhiyong(《關於授權姚志勇先生代為履行總裁職務的議案》).

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### 3. The 26th Meeting of the 2nd Session of the Board

The 26th meeting of the 2nd session of the Board was convened on 29 March 2016, which considered and approved the followings: Annual Report of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年年度報告》); Report of the Board of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度董事會工作報告》); Report of the President of Guolian Securities Co., Ltd. for the Year 2015 (《國聯證券股份有限公司2015年度總裁工作報告》); Financial Final Accounts Report of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度財務決算報告》); Profit Distribution Proposal of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度利潤分配預案》); Self-assessment Report on the Internal Control of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年度內部控制的自我評價報告》); Report on Compliance Management of Guolian Securities Co., Ltd. for the Year 2015 (《國聯證券股份有限公司2015年度合規管理工作報告》); Resolution on Principal Business Scale of the Company for the Year 2016(《關於公司2016年度主要業務規模的議案》); Resolution on Early Termination of Provision of Net Capital Guarantee to Hua Ying Securities Co., Ltd. (《關於提前終止向華英證券有限責任公司提供淨資本擔保的議案》); Resolution on Purchasing of Liability Insurance for Directors, Supervisors, Senior Management Personnel and Related Responsible Person (《關於為董事、監事、高級管理人員及相關責任人員投保責任險的議案》); Risk Management Annual Report of Guolian Securities Co., Ltd. for the Year 2015(《國聯證券股份有限公司2015年風險管理年度報告》); Resolution on Convening General Meeting of 2015(《關於召開2015年年度股東大會的議案》) .

### 4. The 27th meeting of the 2nd session of the Board

The 27th meeting of the 2nd session of the Board was convened on 26 April 2016, which considered and approved the followings: Resolution on Nomination of Members for the 3rd Session of the Board of Guolian Securities Co., Ltd. (《關於提名國聯證券股份有限公司第三屆董事會成員的議案》); Resolution on the General Mandate to Issue Domestic Shares and (or) H Shares by Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司發行內資股及(或)H股一般性授權的議案》); Resolution on Change of Annual Audit Institutions 《關於變更年度審計機構的議案》) .

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### 5. The 28th meeting of the 2nd session of the Board

The 28th meeting of the 2nd session of the Board was convened on 16 May 2016, which considered and approved the followings: Resolution on the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市方案的議案》); Resolution on Authorisation to Handle Specific Matters Regarding the Initial Public Offering and Listing of A Shares (《關於授權辦理首次公開發行A股股票並上市具體事宜的議案》); Resolution on the Use of the Proceeds Raised from the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市募集資金用途的議案》); Resolution on the Proposal Regarding the Distribution of Accumulated Profit Prior to the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市前滾存利潤分配方案的議案》); Resolution on the Three-Year Dividend Return Plan after the Initial Public Offering and Listing of the A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年分紅回報規劃的議案》); Resolution on the Share Price Stabilizing Plan of the Company within Three Years after the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股股票並上市後三年內穩定公司A股股價預案的議案》); Resolution on the Undertakings Regarding Information Disclosure in the Prospectus for the Initial Public Offering and Listing of A Shares of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司首次公開發行A股並上市的招股說明書信息披露相關承諾事項的議案》); Resolution on the Dilution of Immediate Return Arising from the Initial Public Offering and Listing of the A Shares of Guolian Securities Co., Ltd. and the Remedial Measures (《關於國聯證券股份有限公司首次公開發行A股股票攤薄即期回報及填補措施的議案》); Resolution on the Engagement of Audit Institutions for the Initial Public Offering and Listing of the A Shares of Guolian Securities Co., Ltd. (《關於聘請國聯證券股份有限公司首次公開發行A股股票並上市的審計機構的議案》); Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares) (《關於修訂〈國聯證券股份有限公司章程〉(A+H股)的議案》); Resolution on the Amendments to the Rules of Procedures of the General Meetings of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司股東大會議事規則〉的議案》); Resolution on the Amendments to the Rules of Procedures of the Board of Directors of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司董事會議事規則〉的議案》); Resolution on the Formulation of the Policy on the Management of Proceeds of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司募集資金管理制度〉的議案》); Resolution on the Amendments to the Policy on the Management of Connected Transactions of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司關聯交易控制辦法〉的議案》); Resolution on the Formulation of the Policy on the Management of the External Guarantee of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司對外擔保管理制度〉的議案》); Resolution on the Formulation of the Policy on the Supervision and Management of the External Investment of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司對外投資監督管理制度〉的議案》); Resolution on Proposed Appointment of Mr. Peng Yanbao as the President of the Company (《關於建議委任彭焰寶先生為公司總裁的議案》); Resolution on the Amendments to the Annual Cap of Continuing Connected Transaction of the Property Leasing (《關於修訂物業租賃持續關連交易年度上限的議案》); Resolution on Approval of Carrying out Continuing Connected Transaction with Guolian Trust and Determination of the Annual Cap of Transaction (《關於批准與國聯信託開展持續關連交易及確定年度交易上限的議案》); Resolution on the Change of Use of the Proceeds from the Initial Public Offering of H Shares (《關於變更H股首次公開發行募集資金部分用途的議案》); Resolution on Convening the Second Extraordinary General Meeting of 2016 of the Company (《關於召開公司2016年度第二次臨時股東大會的議案》).

## Section 9 Corporate Governance Report

### 6. The 1st meeting of the 3rd session of the Board

The 1st meeting of the 3rd session of the Board was convened on 16 June 2016, which considered and approved the followings: Resolution on the Election of Mr. Yao Zhiyong as Chairman of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於選舉姚志勇先生為公司董事長的議案》); Resolution on the Election of Members of the 3rd Session of the Board Committees of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於選舉第三屆董事會專門委員會成員的議案》); Resolution on the Appointment of the Company's President, Secretary to the Board and Chief Compliance Officer of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於聘任公司總裁、董事會秘書及合規總監的議案》); Resolution on the Appointment of the Deputy President, Chief Financial Officer and Chief Risk Officer of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於聘任公司副總裁、財務總監及首席風險官的議案》); Resolution on New Establishment of Branches of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於新設營業網點的議案》).

### 7. The 2nd meeting of the 3rd session of the Board

The 2nd meeting of the 3rd session of the Board was convened on 31 July 2016, which considered and approved the followings: Resolution on the Appointment of Mr. Yang Ming as the Company's Deputy President of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於聘任楊明先生為公司副總裁的議案》); Resolution on Donations to Disaster Affected Areas of Yancheng (《關於向鹽城災害受災地區捐款的議案》); Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. and Its Appendix the Rules of Procedures of the General Meetings of Guolian Securities Co., Ltd. and Synchronous Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares, draft) and Its Appendix the Rules of Procedures of the General Meetings of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司章程〉及其附件〈國聯證券股份有限公司股東大會議事規則〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)及其附件〈國聯證券股份有限公司股東大會議事規則〉的議案》); Resolution on Convening the Third Extraordinary General Meeting of 2016 and the Second Class Meeting of 2016 of the Company (《關於召開公司2016年度第三次臨時股東大會及2016年第二次類別股東大會的議案》).

### 8. The 3rd meeting of the 3rd session of the Board

The 3rd meeting of the 3rd session of the Board was convened on 26 August 2016, which considered and approved the followings: Resolution on Approval of Hua Ying Securities as the Financial Advisor on Material Asset Reorganization and the Joint Lead Underwriter on Fundraising of Huaguang Boiler in 2016 (《關於同意華英證券擔任華光股份2016年重大資產重組財務顧問及募集配套資金之聯合主承銷商的議案》); Report of the President of Guolian Securities Co., Ltd. for the First Half Year of 2016 (《國聯證券股份有限公司2016年上半年度總裁工作報告》); 2016 Interim Report on Compliance Management of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2016年中期合規管理工作報告》); 2016 Interim Report of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2016年中期報告》).



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### 9. The 4th meeting of the 3rd session of the Board

The 4th meeting of the 3rd session of the Board was convened on 29 September 2016, which considered and approved the followings: Resolution on the Amendments to the Independent Director System of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司獨立董事制度〉的議案》); Resolution on Changing the Name of Institutional Business Management Headquarters of the Company and Adjustments on Responsibilities (《關於公司機構業務管理總部更名及職責調整的議案》); Special Report and Audit Report on the Placing of Proceeds from H Shares and Its Actual Use Information (《關於公司H股募集資金存放與實際使用情況的專項報告和審核報告》); Resolution on New Establishment of Branches Offices in Changzhou and North of Jiangsu (《關於新設常州·蘇北分公司的議案》).

### 10. The 5th meeting of the 3rd session of the Board

The 5th meeting of the 3rd session of the Board was convened on 25 October 2016, which considered and approved the followings: Resolution on Preparation of Detailed Rules of Secretary to the Board of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司董事會秘書工作細則〉的議案》); Resolution on Preparation of the Management System of the Subsidiaries of Guolian Securities Co., Ltd. (《關於制訂〈國聯證券股份有限公司子公司管理制度〉的議案》); Resolution on Establishment of International Business Department (《關於設立國際業務部的議案》); Resolution on Establishment of Custody Business Department (《關於設立托管業務部的議案》).

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### 11. The 6th meeting of the 3rd session of the Board

The 6th meeting of the 3rd session of the Board was convened on 16 November 2016, which considered and approved the followings: Resolution on the Financial Statements of Guolian Securities Co., Ltd. for Recent Three Years and First Quarter (《關於國聯證券股份有限公司最近三年及一期財務報表的議案》); Resolution on the Internal Control Evaluation Report Related to Financial Statement as at 30 June 2016 of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於2016年6月30日與財務報表相關的內部控制評估報告的議案》); Resolution on Confirmation of Connected Transactions of Guolian Securities Co., Ltd. for Recent Three Years and First Quarter (《關於確認國聯證券股份有限公司最近三年及一期關聯交易的議案》); Resolution on Explanation of Tax Payment for Major Tax Category of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於主要稅種納稅情況的說明的議案》); Resolution on the Non-recurring Profit or Loss Items of Guolian Securities Co., Ltd. for Recent Three Years and First Quarter (《關於國聯證券股份有限公司最近三年及一期非經常性損益明細表的議案》); Resolution on Difference Comparison and Explanation of the Original Financial Statements and the Reported Financial Statements for Recent Three Years and First Quarter of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於最近三年及一期原始財務報表與申報財務報表差異比較及說明的議案》); Resolution on Net Capital, Risk Control Indicators and Risk Capital Reserve Calculation Sheets as at 30 June 2016 of Guolian Securities Co., Ltd. (《關於國聯證券股份有限公司2016年6月30日淨資本、風險控制指標、風險資本準備計算表的議案》); Resolution on Planning of New Establishment of Branches in Following Two Years (《關於未來兩年新設網點規劃的議案》).

### 12. The 7th meeting of the 3rd session of the Board

The 7th meeting of the 3rd session of the Board was convened on 22 December 2016, which considered and approved the following: Resolution on the Change of Chief Risk Officer of the Company (《關於公司首席風險官變更的議案》).

## (III) Supervisory Committee Meetings

### 1. The 7th meeting of the 2nd session of the Supervisory Committee

The 7th meeting of the 2nd session of the Supervisory Committee was convened on 25 February 2016, which considered and approved the following: Resolution on Remuneration Distribution of Guolian Securities Co., Ltd. for the Year 2015 (《國聯證券股份有限公司2015年度薪酬分配議案》).



## Section 9 Corporate Governance Report

### 2. The 8th meeting of the 2nd session of the Supervisory Committee

The 8th meeting of the 2nd session of the Supervisory Committee was convened on 29 March 2016, which considered and approved the followings: Report of the Supervisory Committee of Guolian Securities Co., Ltd. for the Year 2015 (《國聯證券股份有限公司2015年度監事會工作報告》); Annual Report of Guolian Securities Co., Ltd. for the Year 2015 (《國聯證券股份有限公司2015年年度報告》); Report on Compliance Management of Guolian Securities Co., Ltd. for the Year 2015 (《國聯證券股份有限公司2015年度合規管理工作報告》).

### 3. The 9th meeting of the 2nd session of the Supervisory Committee

The 9th meeting of the 2nd session of the Supervisory Committee was convened on 26 April 2016, which considered and approved the following: Resolution on Nomination of Shareholder Representative Supervisor Candidates for the 3rd Session of the Supervisory Committee of Guolian Securities Co., Ltd. (《關於提名國聯證券股份有限公司第三屆監事會股東代表監事候選人的議案》).

### 4. The 10th meeting of the 2nd session of the Supervisory Committee

The 10th meeting of the 2nd session of the Supervisory Committee was convened on 16 May 2016, which considered and approved the following: Resolution on the Amendments to the Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司監事會議事規則〉的議案》).

### 5. The 1st meeting of the 3rd session of the Supervisory Committee

The 1st meeting of the 3rd session of the Supervisory Committee was convened on 16 June 2016, which considered and approved the following: Resolution on Election of Mr. Chen Xingjun as Chairman of the Supervisory Committee of Guolian Securities Co., Ltd. (《國聯證券股份有限公司關於選舉陳興君先生為公司監事會主席的議案》).

### 6. The 2nd meeting of the 3rd session of the Supervisory Committee

The 2nd meeting of the 3rd session of the Supervisory Committee was convened on 26 August 2016, which considered and approved the following: 2016 Interim Report of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2016年中期報告》).

## Section 9 Corporate Governance Report

### III. Board of Directors

#### Composition of the Board

As at the end of the Reporting Period, as considered and approved at the annual General Meeting on 16 June 2016, the 3rd session of the Board comprised nine Directors, including two executive Directors, namely Mr. Yao Zhiyong (Chairman) and Mr. Peng Yanbao (President), four non-executive Directors, namely Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin and Mr. Zhang Weigang, and three independent non-executive Directors, namely Mr. Wang Wei, Ms. Chen Qingyuan and Mr. Lee Pak Hay.

During the Reporting Period, as considered and approved at the first extraordinary General Meeting of the Company convened on 28 January 2016, Mr. Zhang Weigang was appointed as a non-executive Director of the Company. He obtained the qualification of acting as a Director in a securities company approved by CSRC and commenced his office on 14 February 2016. Mr. Lei Jianhui, the executive Director and the president, tendered his resignation in writing and his resignation was formally effective on 15 March 2016. The term of office of Mr. Jiang Zhijian, the non-executive Director, was expired, and ceased to act as the non-executive Director of the Company from 16 June 2016 onwards. The term of office of Mr. Fan, Yan Hok Philip, independent non-executive Director, was expired, and ceased to act as the independent non-executive Director of the Company from the date, i.e. on 5 July 2016, that Mr. Lee Pak Hay obtained the qualification approval for the appointment as an independent Director of a securities company approved by CSRC. The term of office of Mr. Lee Pak Hay commenced on 5 July 2016 and will end on the expiry of the 3rd session of the Board.

All of Directors possess the skills, experience and expertise either in the industry or relevant to the management of the business of the Company.



## Section 9 Corporate Governance Report

### (I) Chairman and President

During the Reporting Period, the positions of the chairman and president of the Company are held by different persons, so as to ensure the independence of their duties and balance of authorization. Mr. Yao Zhiyong served as the chairman of the Board and Mr. Peng Yanbao served as the president. Their duties and authorities are clearly divided and specified in the Articles of Association. °

The chairman of the Board is the legal representative of the Company. The chairman, Mr. Yao Zhiyong, leads the Board in determining the Company's development strategy to ensure the effective operation and fulfillment of duties of the Board, and fully discusses the issues within the scope of the Board's duties, so as to ensure that the Directors can receive true, accurate and complete information for making decisions in time. The chairman of the Board shall ensure that the Company can comply with well-established corporate governance procedures and the decisions of the Board are in the interest of the Company and its shareholders as a whole. During the Reporting Period, Mr. Peng Yanbao, the president, manages the business operations of the Company, organizes the execution of the Board's resolutions, and reports relevant work to the Board.

During the Reporting Period, Mr. Lei Jianhui had resigned as the president on 15 March 2016, as approved by the Board, Mr. Yao Zhiyong is served as the president provisionally, resulting in the chairman and president of the Company are acted as by the same individual. The code provision A.2.1 of the Corporate Governance Report, the role of the chairman and president shall be separated, and shall not be performed by the same individual. Since his joining in the Group, Mr. Yao Zhiyong is always one of the core leaders of the Group, who is mainly responsible for development of business strategy and overall development direction of the Group, and he is also familiar with operation of the Group, as such, the Board believes this arrangement will not impair the balance of power and authority between the Directors and the management of Group, nor affect benefit of the Group and shareholders. As considered and approved at the 28th meeting of the 2nd session of the Board of the Company convened on 16 May 2016, Mr. Peng Yanbao was appointed as the president of the Company, and at the same time, Mr. Yao Zhiyong ceased to perform his duty as the president of the Company.

## Section 9 Corporate Governance Report

### (II) Non-executive Directors and Independent Non-executive Directors

As at the end of the Reporting Period, the Company had four non-executive Directors and three independent non-executive Directors. The Company entered into a service contract with each non-executive Director and independent non-executive Director, the term of which commences from 16 June 2016 or the date on which such qualification was approved by CSRC (whichever is later) and will expire till the end of term of the third session of the Board.

The Company confirmed that it had received annual confirmations issued by each independent non-executive Director in respect of their independence according to Rule 3.13 of the Listing Rules. The Company further confirmed the independence of the independent non-executive Directors.

### (III) Relationship between Board Members

None of the Directors, Supervisors and senior management of the Company has any relationship (including financial, business, family or other material/relevant relations) between each other.

### (IV) Roles and Responsibilities of the Board

The Board is responsible for the leadership, control and promotion of success of the Company by directing and supervising its business operations in the interests of the shareholders through the ways of formulating strategic directions and monitoring the financial and management performance of the Company.

### (V) Respective Duties of the Board and the Management

The powers and duties of the Board and the management have been clearly specified to ensure adequate check and balance for sound corporate governance and internal control. The Board is primarily responsible for the following duties: convening a General Meeting, and reporting thereon; implementing the resolutions of the General Meeting; resolving on the Company's business plans and investment plans; formulating the Company's profit distribution proposal and loss recovery proposal; formulating proposals for the increase or reduction of the Company's registered capital and for the issuance and listing of the debentures or other securities; drawing up plans for any substantial acquisition, re-purchasing the shares of the Company; developing plans for the merger, division, transformation and dissolution of the Company; deciding on the setup of Company's internal management bodies and branches; appointing or removing the Company's president, secretary to the Board, chief compliance officer according to the nomination by the chairman; appointing or removing the Company's deputy president, chief financial officer and personnel actually performing the above duties according to the nomination by the president and determining their remunerations, incentives and punishments; formulating the basic management system of the Company.

## Section 9 Corporate Governance Report

The management is primarily responsible for implementing the production, operation and management works of the Company, organizing the implementation of the resolutions of the Board and reporting to the Board; implementing the Company's annual business plans and investment plans; formulating the Company's specific rules; proposing wages, benefits, incentives and punishments for the Company's employees; and determining the appointment and dismissal of the Company's employees.

### (VI) Directors' Performance During the Reporting Period

#### 1. Directors' attendance at the meetings

The attendance of Directors at the meetings during the Year is set out below:

Name of Directors	Meetings attended/held during the term of office							
	Board		Remuneration and Risk		Strategy		General	
	Attendance	Committee	Nomination Committee	Control Committee	Committee	Meetings	Attendance	
<i>Executive Directors</i>								
Yao Zhiyong (姚志勇) <sup>1</sup>	12/12	100%	N/A	N/A	3/3	3/3	8/8	100%
Peng Yanbao (彭焰寶) <sup>2</sup>	7/7	100%	N/A	N/A	N/A	0/0	6/6	100%
Lei Jianhui (雷建輝) <sup>3</sup>	1/1	100%	N/A	N/A	N/A	0/0	1/1	100%
<i>Non-executive Directors</i>								
Hua Weirong (華偉榮)	12/12	100%	N/A	3/3	3/3	3/3	8/8	100%
Zhou Weiping (周衛平) <sup>4</sup>	7/7	100%	3/3	N/A	2/2	0/0	3/6	50%
Liu Hailin (劉海林)	12/12	100%	N/A	N/A	3/3	N/A	8/8	100%
Zhang Weigang (張偉剛)	12/12	100%	N/A	N/A	N/A	N/A	6/6	100%
Jiang Zhijian (蔣志堅)	5/5	100%	3/3	N/A	1/1	3/3	0/2	0%
<i>Independent Non-executive Directors</i>								
Wang Wei (王巍)	12/12	100%	6/6	N/A	N/A	N/A	8/8	100%
Chen Qingyuan (陳清元) <sup>5</sup>	12/12	100%	6/6	3/3	3/3	N/A	8/8	100%
Lee Pak Hay (李柏熹) <sup>6</sup>	6/6	100%	N/A	0/0	N/A	0/0	6/6	100%
Fan, Yan Hok Philip (范仁鶴)	6/6	100%	N/A	3/3	N/A	3/3	2/2	100%

## Section 9 Corporate Governance Report

- Notes:*
1. Mr. Yao Zhiyong is the chairman of the Board and chairman of the Strategy Committee and Risk Control Committee.
  2. Mr. Peng Yanbao is the president, and became a member of the Strategy Committee since 16 June 2016.
  3. Mr. Lei Jianhui resigned as the executive Director and a member of the Strategy Committee on 15 March 2016.
  4. Mr. Zhou Weiping has become a member of the Audit Committee, a member of the Risk Control Committee and a member of the Strategy Committee since 16 June 2016, Mr. Jiang Zhijian ceased to become a member of the Audit Committee, a member of the Risk Control Committee and a member of the Strategy Committee.
  5. Ms. Chen Qingyuan is the chairlady of the Audit Committee.
  6. Mr. Lee Pak Hay has become the chairman of the Remuneration and Nomination Committee and a member of the Strategy Committee, Mr. Fan, Yan Hok Philip ceased to become the chairman of the Remuneration and Nomination Committee and a member of the Strategy Committee.

### 2. *Directors' Voting*

The Directors agreed that, during the Reporting Period, they had not voted against or abstained from voting on all the resolutions of Directors and resolutions of committees in which they cast their votes.

### 3. *Performance of Independent Non-executive Directors*

During the Reporting Period, the independent non-executive Directors of the Company complied with the relevant requirements under laws, regulations and the Articles of Association, and had adequate time and commitment to perform their duties. The independent non-executive directors were not affected by the Substantial Shareholders of the Company and other interested units or individuals of the Company when making their independent judgements in the decision-making of the Company and did their best to protect the interest of the minority shareholders of the Company and exercised their duties and authorizations as independent non-executive Directors.

During the Reporting Period, the independent non-executive Directors did not object any to relevant matters of the Company.

After reviewing (a) the annual confirmation of the time commitment contributed by each Director; (b) the directorships and major commitments of each Director; and (c) the attendance rate of each Director at the Board meetings and the respective board committee meetings as well as General Meetings, the Board is satisfied that all Directors have contributed sufficient time in performing their responsibilities during the year.

## Section 9 Corporate Governance Report

As at the end of the Reporting Period, the chairman of the Board also held one meeting with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors.

### (VII) Insurance Coverage of Directors

The Company had arranged appropriate insurance coverage in relation to any legal actions which may arise against the Directors.

### (VIII) Training for Directors

The Directors confirmed that they had complied with Code Provision A.6.5 of the CG Code in relation to the training of Directors. During the Reporting Period, Mr. Yao Zhiyong, Mr. Peng Yanbao, Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin, Mr. Zhang Weigang, Mr. Wang Wei, Ms. Chen Qingyuan and Mr. Lee Pak Hay attended the guided training for initial public offering of A Shares.

### (IX) Board Meetings and Procedures

During the Reporting Period, the Board convened a total of 12 Board meetings. The chairman of the Board convenes regular Board meetings and the notices of Board meetings shall be sent to all Directors in writing 10 working days before the meeting. A regular Board meeting does not include the practice of obtaining consent from the Board through circulating written resolutions.

The Directors may, before the meeting, inquire about the information needed for decision making from relevant persons or institutions such as the office of the Board, the convener of the meeting, the president and other senior management members, committees, accounting firm and law firm, or may, while the meeting is underway, suggest to the Chairman of the meeting that the aforesaid persons or institutions to attend at the meeting to make relevant explanations, at the expense of the Company.

For a regular Board meeting, the secretary to the Board (or the competent office of the Board) is responsible for collecting draft proposals, which shall be submitted by proponents 14 days before the date of the meeting together with explanatory materials. After summarising relevant materials, the secretary to the Board shall submit the time, place and agenda of the board meeting to the Chairman. Before giving the notice on convening a regular meeting, the office of the Board shall fully consult all Directors to form the initial proposal and then submit them to the Chairman for approval. The Chairman, if necessary, shall consult the president or other senior management staff before finalizing the proposal.

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For a special meeting of the Board, it shall give a meeting notice in writing to all Directors five days before the meeting. When a special meeting needs to be held as early as possible in case of emergency, the meeting notice is allowed to be given by telephone or otherwise verbally at any time provided that the convener makes necessary explanations at the meeting.

When a Director and the legal persons and natural persons involved in the resolutions of the Board meeting have certain interests or connection, such Director shall not exercise his/her voting rights on such resolutions nor can he/she exercise any voting rights on behalf of other Directors. The Board' meeting may be held if it is attended by more than one half of the unconnected or uninterested Directors, and the resolutions of the Board' meeting shall be passed by more than one half of the unconnected or uninterested Directors.

The Secretary to the Board shall arrange the Office of the Board staff to keep the minutes of the Board meeting. A Director present at the meeting shall have the right to require an explanatory note to be made in the minutes in respect of his speech at the meeting. The minutes of Board meeting shall be kept by the secretary to the Board as files of the Company. The Secretary to the Board shall make the minutes of meetings openly available for inspection in any reasonable period of time by Directors, who has made a reasonable notice in respect thereto.



## Section 9 Corporate Governance Report

### IV. Supervisory Committee

(I) Supervisor' attendance at the meetings of the Supervisory Committee:

Name of Supervisors	Number of meetings required to attend	Number of meetings attended
Zhou Weixing	6	6
Shen Ying	2	2
Yu Lei	2	2
Chen Xingjun	2	2
Yin Zhuowei	4	4
Shan Xudong	4	4
Yang Xiaojun	6	6
Jin Guoxiang	4	4

(II) During the Reporting Period, the Supervisory Committee of the Company had no objection to the matters supervised.

### V. Board Committees

For the purpose of corporate governance, the corporate governance policies formulated by the Company shall state clearly that the Board is responsible for formulating and reviewing corporate governance policies and practices of the Company; reviewing and monitoring training and continuous professional development of the Directors and senior management of the Company; reviewing and monitoring policies and practices of the Company in compliance with laws and regulatory requirements; formulating, reviewing and monitoring the code of conduct and compliance manual for employees and the Directors of the Company; and reviewing the compliance by the Company with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and the disclosures in the Corporate Governance Report.

To assist the Board in executing its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration and Nomination Committee, Strategy Committee and Risk Control Committee.

Clear written terms of reference of all the Board Committees are provided to respective members of these Committees. Details of the Board Committees are set out as follows:-

## Section 9 Corporate Governance Report

### (I) Audit Committee

The Audit Committee comprises three non-executive Directors, namely Ms. Chen Qingyuan (Chairlady) and Mr. Wang Wei, being independent non-executive Directors, and Mr. Zhou Weiping, being a non-executive Director.

The specific written terms of reference of the Audit Committee are available on the websites of Stock Exchange and the Company. The main responsibilities of the Audit Committee are:

1. to assist the Board in fulfilling its responsibilities by supervising financial and other reporting, and providing an independent review as to the effectiveness of the risk management and internal controls of the Group, and as to the adequacy of the external and internal audits;
2. to be primarily responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the authorized independent auditors ("External Auditors"), and to approve the remuneration and terms of engagement of External Auditors, and dealing with any questions of its resignation or dismissal;
3. to serve as a focal point for communication between other Directors, External Auditors and internal auditors or any person responsible for internal audit function ("IA Staff") as regards to their duties relating to financial and other reporting, risk management, internal controls, external and IA Staff and such other matters as the Board may determine from time to time;
4. to review and monitor External Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
5. to review and monitor the effectiveness of the Company's financial control, internal control and risk management systems; and
6. other responsibilities as required in the Terms of Reference and Procedures of the Audit Committee.

During the Reporting Period, the Audit Committee convened a total of 6 meetings. The Audit Committee mainly discussed about the following issues: the Annual Report for the Year 2015, the Financial Final Accounts Report for the Year 2015, change of annual audit institution, appointment of audit institution for listing of A Shares, Interim Report for the Year 2016, Report of Maintaining and Actual Utilization of Proceeds from Issue of H Shares and the financial statements for recent three years and first quarter, connected transaction, variance statements and non-recurring profit and loss statement, and made the recommendations to the Board. At the same time, the Audit Committee also performed its duty on reviewing the 2016 annual results and performed the reporting of other responsibilities as set out in the Code.

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### (II) Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises three non-executive Directors, namely Mr. Lee Pak Hay (Chairman), Ms. Chen Qingyuan, being independent non-executive Directors and Mr. Hua Weirong, being a non-executive Director.

The specific written terms of reference of the Remuneration and Nomination Committee are available on the websites of the Stock Exchange and the Company. The main responsibilities of the Remuneration and Nomination Committee are:

1. to consult the chairman and/or chief executive officer about their remuneration proposals for other executive Directors;
2. to make recommendations to the Board regarding the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for formulating remuneration policy;
3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration packages should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
5. to make recommendations to the Board on the remuneration of non-executive Directors;
6. to review the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
7. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection and of individuals nominated for directorships;
8. to assess the independence of independent non-executive Directors of the Company;
9. to make recommendations to the Board on the appointment or re-appointment of Directors and succession plan for Directors, especially for chairman and chief executive officer; and
10. other responsibilities as required in the Terms of Reference and Procedures of the Remuneration and Nomination Committee.

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During the Reporting Period, the Remuneration and Nomination Committee convened a total of 3 meetings. The Remuneration and Nomination Committee mainly discussed and made recommendations to the Board in relation to the following issues: annual remuneration distribution scheme, nomination of members to the 3rd session of the Board, appointment of the president of the Company and other matters. At the same time, the Remuneration and Nomination Committee also formulated the policies for Directors' remuneration, evaluated the performance of executive Directors and approved the terms of service contracts of executive Directors, and made recommendations to the Board regarding the salary package of individual executive Director. For the board diversity policy of the Company, please refer to the relevant contents in the 14th paragraph of this section. The Remuneration and Nomination Committee also discussed and made the recommendations on the board diversity policy.

### (III) Strategy Committee

During the Reporting Period, the Strategy Committee comprises five Directors, namely Mr. Yao Zhiyong (Chairman) and Mr. Peng Yanbao, being executive Directors, Mr. Hua Weirong and Mr. Zhou Weiping, being non-executive Directors, and Mr. Lee Pak Hay, being independent non-executive Director.

The specific written terms of reference of the Strategy Committee are available on the websites of Stock Exchange and the Company. The main responsibilities of the Strategy Committee are:

1. to study and review the strategic development plans of the Company and making recommendations to the Board;
2. to implement information exchange and research within the industry, understand the development and trend of macro-economy and securities industry and prepare specific strategic reports;
3. to conduct preliminary review of the Company's annual operating plans and strategic capital allocation plans and make recommendations to the Board;
4. to study major investment financing programs which require to be approved by the Board or the Risk Control Committee as stated in the Articles of Association or in the terms of reference and procedures of the Risk Control Committee and make recommendations to the Board;
5. to study major capital operation and assets management projects which require to be approved by the Board as stated in the Articles of Association and make recommendations to the Board;
6. to evaluate the balanced development of various business segments and make recommendations to the Board;

## Section 9 Corporate Governance Report

7. to review the major constitutional restructuring and organizational structure plans and make recommendations to the Board;
8. to study other important matters affecting the Company's development and make recommendations to the Board; and
9. other responsibilities as required in the Terms of Reference and Procedures of the Strategy Committee.

During the Reporting Period, the Strategy Committee convened a total of 3 meetings. The Strategy Committee mainly discussed and made recommendation to the Board in relation to the following issues: principal business scale for the year, general mandate to issue Domestic Shares and (or) H Shares, initial public offering of A Shares and listing plan and other matters.

### (IV) Risk Control Committee

The Risk Control Committee comprises five Directors, namely Mr. Yao Zhiyong (Chairman), being an executive Director, Mr. Hua Weirong, Mr. Zhou Weiping and Mr. Liu Hailin, being non-executive Directors, and Ms. Chen Qingyuan, being an independent non-executive Director.

The specific written terms of reference of the Risk Control Committee are available on the websites of Stock Exchange and the Company. The main responsibilities of the Risk Control Committee are:

1. to review and give opinion on the overall objectives and basic policies of compliance management and risk management;
2. to review and give opinion on the establishment of specific departments and duties of compliance management and risk management;
3. to evaluate and give opinion on the risks of the major decisions approved by the Board and solutions to solve such major risks;
4. to review and give opinion on compliance reports and risk evaluation reports approved by the Board; and
5. other responsibilities as required in the Terms of Reference and Procedures of the Risk Control Committee.

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During the Reporting Period, the Risk Control Committee convened a total of 3 meetings. The Risk Control Committee mainly discussed the review of policies and practices in respect of the compliance with laws and regulatory requirements and made recommendation to the Board. At the same time, the Risk Control Committee also performed its duty on review of risk management and internal control system and reporting of effectiveness of internal audit function.

### VI. Securities Transactions of Directors, Supervisors and Relevant Employees

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors, Supervisors and relevant employees' securities transactions. Having made specific enquiries with all Directors, Supervisors and relevant employees, all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code from the listing date up to the end of the Reporting Period.

### VII. Remuneration of Senior Management

For details of the emoluments of senior management as disclosed by the Company by remuneration range during the Reporting Period, please refer to section 8 "I. Changes in Shareholdings and Remuneration Information of Current and Resigned Directors, Supervisors and Senior Management During the Reporting Period" of this report.



## Section 9 Corporate Governance Report

### VIII. Risk Management and Internal Control

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk management and internal control system. The risk management and internal control system is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatements or losses. At the same time, the Audit Committee and Risk Control Committee of the Company are responsible for its internal audit.

The management is primarily responsible for the design, implementation and maintenance of the risk management and internal control system to safeguard the shareholders' investment interests and assets of the Group. The management monitors the business activities closely and reviews the financial results of operations against budgets/forecast on a monthly basis. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the consolidated financial statements are prepared in accordance with generally accepted accounting principles, the Company's accounting policies and applicable laws and regulations.

During the Reporting Period, the management conducts 5 reviews on the effectiveness of the Company's risk management and internal control system with a view to identify any areas that need improvement. The approach of the review includes conducting interviews with relevant management and staff members, reviewing relevant documentation of the risk management and internal control system and evaluating findings on any deficiencies in the design of the risk management and internal controls. The reviews covered major operating aspects of the business of the Company, including brokerage business, assets management business, credit trading business and proprietary trading of the Company and other operating segments. Proper management of risks, including credit risk, market risk, liquidity risk, operational risk, reputation risk, concentration risk and compliance risk, are also important to the business of the Company. The Company has implemented policies and procedures on these segments and continuous revisions on the relevant policies and procedures will be made from time to time. Monitoring of the internal control system and risk management mainly rest on Compliance and Risk Control Department and Audit and Supervision Department.

The Company has established anti-fraudulent management related system, which clearly stated the concept and form of fraud, responsibility body and regular department, responsibility attribution, fraud prevention and control, and listed the critical information like whistleblowing hotline, whistleblowing mailbox, fraud whistleblowing, investigation, reporting process and remedial measures and punishment. At the same time, the Company sets up an independent Audit and Supervision Department, which will be delegated as the regular department of the Company for anti-fraudulent works.

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The Company has established the information disclosure management system, which clearly stated the basic principles of information disclosure, content, disclosure management procedures, confidentiality measures, etc. The system also explicitly releases the procedures of inside information and makes the information that may need to be disclosed into written documents for relevant person in charge to review their truth, accuracy and completeness. Upon confirmation, the documents shall be submitted to the secretary to the Board and the company secretary for further approval as soon as possible. The information must be strictly confidential in the process. If the necessary confidentiality cannot be ensured, or the information has been leaked, public disclosure would be made immediately. The Company appoints the secretary to the Board and the company secretary to be responsible for the information disclosure of the Company, and the office of the Board is the specific executive body responsible for the information disclosure of the Company.

The Company has established the connected transaction management system, which clearly stated the explanation on the definition of connected persons, as well as the definition and type of connected transaction under the Listing Rules. It standardizes review and approval body for connected transaction, reporting process, auditing supervision, legal liability and punishment requirements. The secretary to the Board of the Company shall be responsible for managing the files for connected persons and collection, disclosure, reporting of connected transactions and their submission for approval. The company secretary shall assist the secretary to the Board or, under delegation of the Secretary to the Board, to conduct related matters. The office of the Board is the specific executive body.

The Company has established the relevant system for external investment, which clearly specifies the decision authority for external investment, daily management, transfer and recovery, major events reporting and information disclosure, etc. At the same time, the respective audit department of the Company will monitor and rectify investment projects according to their responsibilities and report the same to the project investment approval authority for discussion and handling.

The Company has established the relevant system for external guarantee, which clearly specifies the review and approval procedures for external guarantee object, management, information disclosure and the responsibilities of the person-in-charge, etc. At the same time, any department and person-in-charge involved in the guarantee issues of the Company has the obligation to report the external guarantee to the Secretary to the Board in a timely manner, and provides the documents required for information disclosure.

The Board and the Audit Committee had conducted a review on the effectiveness of risk management and internal control system of the Company. The review covered all significant supervision and control, including financial, operational and compliance controls and risk management functions as well as resources, staff qualifications and experience, the adequacy of training programs and budget of the Group's accounting and financial reporting function. The Board considers that the Company's risk management and internal control system are effective and adequate.





## Section 9 Corporate Governance Report

### IX. Communication with Shareholders

The General Meetings shall be the highest authority of the Company. All shareholders exercise their power through the General Meetings. The Company formulates Procedures and Rules of General Meeting to ensure the compliance of the convening and holding of General Meetings. The Company explicitly specifies shareholders' rights in the Articles of Association to ensure the rights of shareholders, especially the right to be informed of the minority shareholders. The Company treats all shareholders impartially.

There are persons specially designated for contacting with Shareholders. The Company attaches great importance to their opinions and suggestions and tries to meet their reasonable requests in time. The Company sets up "Investor Relations" column on its website [www.glsc.com.cn](http://www.glsc.com.cn) for publishing such information as announcements and financial data of the Company. Shareholders can also call the Company directly to inquire about relevant information, and the Company will deal with such inquiry in a timely and proper manner.

The Company welcomes all Shareholders to attend General Meetings and facilitated their attendance to the range permitted. The Company's Directors, Supervisors and senior management will attend General Meetings. According to Provision E.1.2 of Corporate Governance Code, chairman and chairperson of the Audit Committee, Remuneration and Nomination Committee, and other committees of the Board shall attend annual General Meeting and answer questions at the meeting. The management of the Company shall ensure the External Auditors to attend annual General Meeting and answer relevant questions put forward by Shareholders.

### X. Shareholders' Rights

The Company convenes and holds General Meetings according to the Articles of Association and Rules of Procedure for General Meetings to guarantee the equal status and full exercise of rights for all Shareholders, especially the minority Shareholders. All of the Company's Directors, Supervisors and senior management shall attend General Meetings in accordance with Articles of Association and answered questions from Shareholder.

## Section 9 Corporate Governance Report

### Procedures of Shareholders' application for convening General Meetings and proposing resolutions at the General Meeting

Pursuant to the procedures set out in Article 8.08 of Articles of Association which states that "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 10 days after receiving the proposal. If the Board agrees to convene the extraordinary General Meeting, it shall serve a notice of such meeting within 5 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 10 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 5 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, the shareholder(s) severally or jointly holding more than 10% shares of the Company for more than 90 consecutive days may convene and preside over such meeting by itself/themselves. All reasonable expenses incurred for such meeting convened by the shareholders as a result of the failure of the Board of Directors to convene a meeting as required by the above request(s) shall be borne by the Company and be set off against sums owed by the Company to the defaulting directors." and Article 8.23 "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 2 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", the shareholders may convene an extraordinary General Meeting or shareholders class meeting. The shareholders may attend General Meetings and exercise voting rights either in person or by proxy. The minutes together with the attendance record of shareholders and the powers of attorney of the proxies shall be kept at the Company's premises. Shareholders may have access to copies of the minutes free of charge during the office hours of the Company. The Articles of Association has been disclosed on the websites of the Company and the Stock Exchange. The Company encourages shareholders to attend the General Meeting, and make suggestions by the following ways: make directly questions with the Board and the Board committees on the matters in relation to operation and governance at the meeting, or submit the company secretary such suggestions by the following manners (i) to deliver in writing with the address of office of the Company in the PRC: 9/F, No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC; Postal code: 214000, or (ii) Email: glsc-ir@glsc.com.cn.



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### XI. Amendments to Articles of Association

During the Reporting Period, one round of amendments to the Articles of Association was made and was approved at the General Meeting held on 19 September 2016. Details of the amendments to the Articles of Associations are stated in the circular and announcement published on the websites of the Company and Stock Exchange on 18 August 2016 and 5 December 2016, respectively.

### XII. Investor Relationship

Dedicated to becoming an elite listed company in Hong Kong capital markets, the Company has always given priority to continuous enhancement of Shareholders' value, paid high attention to investor relationship management, gradually established clearly two-way communication channels with investors and keep on improving the corporate governance structure. During the Reporting Period, the Company communicated with investors by ways of conducting results conference, telephone calls, emails, receiving visitors and road shows, and treated all investors equally to ensure that all Shareholders can fully and impartially exercise their rights.

During the Reporting Period, the Company disclosed information in a truthful, accurate, complete and timely manner in strict accordance with laws, regulations and regulatory provisions, to ensure that investors are able to know about the Company's material matters in time and thereby protecting their interests to the greatest extent.

### XIII. Company Secretary

Mr. Li Zhenquan, the secretary to the Board, is responsible for making recommendations to the Board of Directors for the corporate governance and ensuring the policies and procedures of the Board, governing laws, rules and regulations are observed. In order to maintain sound corporate governance and comply with the Listing Rules and applicable Hong Kong laws, Ms. Lin Fanyu, the company secretary of the Company, assists Mr. Li Zhenquan in fulfilling the duties as the secretary to the Board. Ms. Lin Fanyu is an employee of the Company. The main contact person of the Company is Ms. Lin Fanyu, the Company Secretary of the Company. As at the end of the Reporting Period, Ms. Lin Fanyu received no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Listing Rules.

### XIV. Board Diversity Policy

The Company has adopted the board diversity policy according to Provision A.5.6 of the Corporate Governance Code. The Company's board diversity policy can be summarized as follows: the Company recognizes the importance of diversity to corporate governance and the Board's effectiveness. The board diversity policy established by the Company is to set out the basic principles to be followed to ensure that the members of the Board have the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effective operation of the Board and to maintain high standards of corporate governance. The nomination and appointments of members of

## Section 9 Corporate Governance Report

the Board will continue to be made on a merit basis based on the Company's business needs from time to time while taking into account the benefits of Board member diversity. Selection of the Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industrial experience and professional experience. The Company offers advices to the Board in respect of the appointment or reappointment of directors and the director succession plans through the Remuneration and Nomination Committee, and the advices will take effect after being reviewed and passed by the Board and the General Meeting successively.

### XV. Responsibilities of Directors Concerning Financial Statements

The declarations of the responsibilities of Directors concerning financial statements set out hereinafter and the "Responsibilities of Auditors" in the Independent Auditor's Report of this report shall be read jointly. The declarations of the responsibilities of the same shall be understood severally.

All the Directors of the Company confirmed their responsibility of preparing the financial statements that can truly reflect the Company's operating results for each financial year. To the knowledge of the Directors, no event or circumstance that may cause material adverse impact on the Company's continuous operations needs to be reported.

### XVI. Auditor's Independence And Remuneration

The Audit Committee is mandated to review and monitor the independence of the auditors to ensure objectivity and effectiveness of the financial statements during the audit process in accordance with applicable standards. The Audit Committee was of the view that the Company's auditor, Deloitte Touche Tohmatsu is independent and made certain recommendations to the Board. In order to maintain the independence of the external auditor, unless the non-audit works meet the criteria as defined in the Listing Rules and has received prior approval from the Audit Committee, the Company will not appoint external auditors to engage in non-audit works.

During the Reporting Period, Deloitte Touche Tohmatsu has rendered services to the Company and the remuneration paid/payable by the Company to Deloitte Touche Tohmatsu is set out as follows:

Service rendered	Fees paid/payable (RMB' 0,000)
Audit services	3.5
Non-audit services	
Review of the Interim Financial Report	3.5

## Section 9 Corporate Governance Report

### XVII. Other Matters

#### (I) Internal Control

##### 1. Responsibility Statement on Internal Control

It is the responsibility of the Board of the Company to establish a comprehensive and effectively implemented internal control, evaluate its effectiveness, and truthfully disclose the internal control evaluation reports in accordance with the requirements of the enterprise internal control regulated system. The Board, Supervisory Committee and Directors, Supervisors and senior management of the Company warrants that the contents in this report do not contain any false representation, misleading statement or material omission, and jointly and severally accept the legal responsibility regarding the truthfulness, accuracy and completeness of the content of the report.

##### 2. Basis of Establishment of Internal Control and Development of Internal Control System

The Company emphasized the development of internal rules and regulations and management system. A comprehensive corporate internal control system has been established by the Company in accordance with the Company Law, Securities Law, Fundamental Norms on Enterprise Internal Control, Listing Rules and its supporting guidance and the supervision requirements on internal control from CSRC, and the Company always places the development of internal control throughout the operation and development of the Company, and adheres to the principles of giving priority to system procedures (制度流程先行) during the business operation, constantly perfect the internal control system, regulate system enforcement, enhance supervision and inspection and promote the continuous and sound development for the Company.

The Company has established an internal system which covers environment control, business control, capital management and accounting control, electronical information control, human resources and remuneration management, compliance management and risk control. The internal control set up by the Company includes various mechanisms such as prior prevention, supervision when incident occurred and post examination, which formed a comprehensive and systematic internal control system with check and balance among different positions in a department and different departments, and have independent supervision by the Compliance and Risk Control Department, and Audit and Supervision Department.

## Section 9 Corporate Governance Report

### 3. Conclusion of Internal Control Evaluation and Opinions of Internal Control Auditing Report

According to the provisions of the Basic Standard for Enterprise Internal Control (《企業內部控制基本規範》) and its supporting guidance as well as the requirements of other relevant laws and regulations, the Company conducted self-evaluation regarding the effectiveness of internal control design and operation of the Company as at 31 December 2016.

The Company puts great importance on the construction and improvement of internal control system and regards the internal control management and compliance culture as an important element of corporate development strategy. The Company set up a more regulated corporate governance structure which formed an internal control system with clear responsibilities and duties, with check and balance. The Company established and perfected a more integrated internal control system in which different control measures have covered different segments such as prior prevention beforehand, supervision when incident occurred and post examination on each business, thereby establishing a more comprehensive compliance governance system. There is no material defect in the corporate internal control system, or exists any major deviation during the process of operation activities. The internal control system of the Company is effective as a whole which can effectively protect the legality and compliance of corporate operation management and assets security to prevent the existence of major and significant defects. During the Reporting Period, there was no occurrence of irregular action and material internal control problems, nor was it exposed to penalty or public censure. The Company and its Directors, Supervisor and senior management were free from any penalty by CSRC, SAC, Stock Exchange, Financial Futures Exchange and any public censure, nor under any punishment records under the departments of finance and taxation, foreign exchange and audit. The risk that may be caused by common defects is under control in which they will not result any significant impact on the quality of corporate operation management activities and financial targets, and we have conscientiously implemented the rectification. There was no major change on internal control that would make substantial impact on the evaluation conclusion from the date of corporate internal control report to the date of publishing the internal control evaluation report.

The Company noticed that internal control should follow and adapt to the operation scale, business scope, competition situation and risk level of the Company with timely adjustment as the conditions change. The Company will continue to improve the internal control system, regulate the enforcement of internal control system and enhance the supervision and inspection on internal control for the purpose of facilitating the healthy and sustainable development of the Company.

The attestation opinion on the internal control of the Company in 2016 issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP was: “we are of the opinion that, in accordance with “Fundamental Norms on Enterprise Internal Control”(《企業內部控制基本規範》) and the requirements of its supporting guidelines, Guolian Securities had maintained an effective internal control on the financial statements in all major respects as at 31 December 2016”.



## Section 9 Corporate Governance Report

### (II) Development Compliance Management System and Compliance Inspection

In order to further implement the regulatory requirements of compliance management in all respects, under the leadership of the Board, based on the multi-level compliance risk control system consisted of the risk management committee, chief compliance officer, Compliance and Risk Control Department, departmental compliance and risk control personnel, by organizing the Compliance and Risk Control Department and each branch as led by the chief compliance officer to explore and study how to strengthen the compliance management in the branches positively by ways of on-site visits and conversations etc., the Company has formulated the preliminary optimization plan in respect of personnel, work responsibilities and assessment.

The Company has set up compliance management systems, such as the “Basic Regulations of Compliance Management of Guolian Securities”(《國聯證券合規管理基本制度》), “Compliance Audit and Consulting Measurements of Guolian Securities”(《國聯證券合規審查及諮詢辦法》) and “Employees Violation Penalty and Leadership Accountability System of Guolian Securities”(《國聯證券員工違規處罰及領導責任追究制度》) etc. The Company releases the latest regulatory policies, laws and regulations to the employees through office network and compliance platform on a timely basis; guides, trains and standardizes each department and division of the Company the perform the responsibilities of compliance management; implements various compliance management measures and works closely with business development to strengthen the compliance management of the Company, promotes the development of compliance culture of the Company and makes the philosophy of “Everyone is responsible for compliance, creating value with compliance” deeply embedded into the corporate culture of the Company.

In 2016, the Company adhered to the development-oriented compliance management, grasped risk control as key point to improve continuously the compliance management mechanism and organization construction, carrying out all works in respect of compliance and risk control, earnestly implement various supervision requirements, which enabled the Company to achieve a stable and orderly development for the various businesses of the Company.

## Section 9 Corporate Governance Report

### 1. Enhance System Development, Improve Management Mechanism

With the development of various businesses of the Company and adjustment to the internal organizational structure, the Company organized the relevant departments to adjust the internal management system timely according to the development plan of various businesses together with the circumstances under which the actual implementation of the existing system is applicable. In 2016, the Compliance and Risk Control Department organized to formulate the “Operational Guidelines on Witness the Signing In Person of Guolian Securities”(《國聯證券面簽見證操作指引》) and “Measures for the Management of Intermediary and Agent Business of Guolian Securities (Provisional)”(《國聯證券居間中介業務管理辦法(暫行)》), amended the “Employees Violation Penalty and Leadership Accountability System of Guolian Securities”(《國聯證券員工違規處罰及領導責任追究制度》), reviewed over 20 documents, including the “Investment Management System on Customer Assets Management Business”(《客戶資產管理業務投資管理制度》), “Equity Investment Management Measures on Customer Assets Management Business”(《客戶資產管理業務權益類投資管理辦法》), “Management Measures on Fixed Income Investment to Bond Trading”(《固定收益投資債券交易管理辦法》), “Operational Guidelines on Bond Pledged Type Repurchase Business of Guolian Securities Co., Ltd.”(《國聯證券股份有限公司債券質押式回購業務操作指引》) and so on, which further improved the institutional system construction of the Company.

In order to optimize the operational process and regulate the authorization management, the Compliance and Risk Control Department optimized the processes on contract agreement, compliance inspection and dispute resolution, reviewed the compliance of each business process in accordance with the new office system of the Company that was introduced, which further enhanced the risk prevention during the process and improved work efficiency. To carry out special streamlining on the authorization matters of the Company, the Compliance and Risk Control Department performed a summary review for each department on those matters needed to be authorized, the scope and responsibilities thereof pursuant to relevant laws and regulations as well as systems like “Work Instructions for the President of Guolian Securities Co., Ltd.”(《國聯證券股份有限公司總裁工作細則》) and “Management Measures on Authorization of Guolian Securities”(《國聯證券授權管理辦法》) and based on the actual situation of the Company, carried out the Company’s internal management system and regulated the management of each service authority.





## Section 9 Corporate Governance Report

### 2. Implement Compliance Audit, Achieve Full Business Coverage

The Compliance and Risk Control Department of the Company organized to perform compliance audit on contract agreement, judicial assistance, external reporting materials, information disclosure and outgoing messages etc., and discovered in time and rectified any violation and risk events. Since August 2016, the Compliance Risk Control Department conducted compliance assessment covering the NEEQ. Through methods of OA auditing the stamped materials regarding the listing of projects on the NEEQ (including feedback and reply), private offering of additional shares, and inspection and reply for special issues, attending the internal audit meetings of OTC Market Department and keeping track of the quality assessment results practiced by chief agency broker, the Compliance and Risk Control Department gradually performed legality and compliance coverage for NEEQ by business sections. From September to December, the quality of the Company's listing business on the NEEQ improved significantly, and the ranking of chief agency brokers announced by NEEQ moved up month by month.

### 3. Strengthen Compliance Inspection and Optimize Compliance Assessment

The Compliance and Risk Control Department organized compliance inspection on operation department and branches in accordance with supervision requirements and inspection plans. In 2016, the Compliance and Risk Control Department conducted comprehensive compliance inspection on 9 branches, gave special inspection on contract files management of the Asset Management Department and carried out joint special compliance inspection on the marketing and management activities of the 8 branches for agency distribution of financial products in collaboration with the Audit and Supervision Department. Comments or suggestions on the problems spotted during inspection are being put forward, which explicitly required branches to conduct proactive rectification and give feedback and implement subsequent follow up. Meanwhile, the Compliance and Risk Control Department conducted in-depth research on the compliance assessment mechanism construction of the Company and strengthened compliance management on every business segment, so as to achieve gradually the supervision requirements of overall coverage for compliance management.

## Section 9 Corporate Governance Report

### (III) Working Information of Audit and Supervision Department

The objective of the Audit and Supervision Department is to perfect corporate internal control, facilitate continuous regulated development, ensure the legality and compliance of operation of the Company and to prevent risks. The department adheres to the vision of prudence and practicability, seeking truth from facts, team cooperation, and innovative development, entwining the operation developing target of the Company, actively organizes and conducts different auditing works, practically implement the functions of the departments according to annual audit and supervision work plan. The Company completed 31 auditing and supervisory reports under different aspects, of which, 1 was the annual compliance effectiveness evaluation of the Company, 20 were resignation audit reports, 5 were branch and branch office comprehensive inspection reports, 2 were control inspection within the functional departments and 3 were special project inspection. The audit inspection projects covered brokerage business, credit transactions, financial management, compliance management, internal control and personal management etc. Through organizing on-site audits, they can objectively reflect the conditions of implementing national laws and regulations, industry standards and corporate system of the auditee and also the operation management conditions. Regarding the problems and deficiencies discovered during audit, the department provides audit rectification measures and suggestions in time, and strives to urge the implementation of audit rectification issues, which thereby promotes and supports the regulated development of the different businesses of the Company.

## Section 10 Environmental, Social and Governance Report

In 2016, the Company discussed about the operation and social responsibility performance to identify if there were any relevant significant environmental, social and governance issues and evaluated the respective performance and impact. The Company sorted out and summarized the social responsibility management task for the year, included the environmental, social and governance related issues into this report according to Appendix 27 of the Listing Rules (“Environmental, Social and Governance Reporting Guide”).

As the Group is mainly engaged in the securities brokerage, investment banking, asset management and investment, proprietary trading and credit transactions and other businesses, during the Reporting Period, no disclosure was made regarding the indicators relating to emissions, environment and natural resources, and supply chain management which were not significant environmental related issues of the Company and hence not applicable to us.

### I. Environment

During the Reporting Period, the Company committed to maintaining a high standard of corporate governance and strived to incorporate corporate social responsibility into the Company’s business strategy and management goal. The Company continued to protect resources consciously and endeavored to resources recycling and reuse, so as to reduce the impact on environment arising from operation.

In compliance with the environmental laws and regulations including “Environmental Protection Law of the People’s Republic of China”, the Company always performed the environmental responsibility under the standards that are higher than local environmental regulations and industry rules and endeavored to achieve higher environmental performance. During the Reporting Period, there was no incident of non-compliance with the relevant environmental laws and regulations in the Company.

#### (I) Use of Resources

##### Energy Conservation and Emission Reduction Service

While striving to achieve its business development, the Company pushed forward effectively the sustainable environmental development and advocated the idea of “low carbon and energy conservation, environmentally-friendly office” and improved the environmental protection awareness of the staff through trainings, with an aim to promote energy conservation during the operation process and reduce resources wastage through a number of measures including water saving, electricity saving, paperless office, duplex printing of documents, waste paper recycling, using less polluted decoration materials, garbage sorting (mainly for heavy metal waste sorting), reducing the use of disposal cups, advocating green travel and implementing energy conservation measures.

## Section 10 Environmental, Social and Governance Report

### II. Society

During the process of achieving high quality self-development, the Company pays attention to the needs of all stakeholders, including employees, customers, suppliers and communities, and conducts the operation in accordance with the laws and regulations, with an effort to achieve staff happiness, proprietor satisfaction and social recognition as well as seeking for a harmonious development to maximize the interests of all stakeholders.

#### (I) Employment

By treating employees as important assets, the Company is in strict compliance with the relevant requirements, including the “Labour Law of the People’s Republic of China” and “Labour Contract Law of the People’s Republic of China”, and always adheres to human-oriented and compliance employment according to laws so as to safeguard the fair and equal access to various interests by our employees.

##### **Remuneration and Welfare Policy**

For the staff remuneration and welfare policy, please refer to “VI. Information about Staff and Remuneration of the Company and Major Subsidiaries” of Section 8 of this report.

##### **Dismissal, Recruitment and Promotion Policy**

The Company strictly complies with laws and regulations, including labour laws, and persists in compliance employment. The Company handles the procedures regarding staff introduction, resignation and so on in accordance with the legal procedures and strives to build a harmonious labour relationship. Following the principle of “equal opportunity, fair competition, comprehensive review, talent selection” to recruit, the Company strictly controls the process and carries out full investigation, and pays attention to innovative improvement in channel and way so as to effectively improve recruitment efficiency. Through launch of the MD system, the Company sets dual-channel development path for staff and encourages staff to work hard and improve their own capability standard with a view to obtain more development opportunities. Meanwhile, the Company establishes a comprehensive internal appraisal and performance review mechanism to safeguard impartial promotion opportunities for staff.

##### **Working Hours and Holiday Policy**

The Company stringently abides by maximum legal working hours, establishes and arranges holidays for our employees according to relevant laws.

## Section 10 Environmental, Social and Governance Report

### Equality and Anti-discrimination Policy

The Company has human resources management systems in place to define the rights and obligations of the Company and staff, protects the legal interests of both parties and establishes complete, equal and impartial labor relationship. In strict compliance with the state's laws, regulations and policies relating to protection of female staff interests, the Company has organized physical examination for female staff and all kinds of amateur cultural activities regularly to ensure female staffs are treated equally and their interests are protected.

### Diversified Policy

The Company has implemented the talent thriving enterprise strategy and promoted the construction of talent echelon solidly. According to industry competition characteristics and actual situation, the Company has formulated and perfected the planning, system and measures of talents construction, introduced and developed talents through a number of methods and forms, such as vigorously promoting introduction of high-end talents, continuously focusing on cultivation of reserve cadres, strengthening cultivation of management trainees, and constantly highlighted talents attraction, reserve and cultivation, so as to boost the diversification of staff structure and provide talent support for the development of the Company.

During the Reporting Period, the statistics relating to employment was summarized as follows:

Indicators	Unit	2016
<b>Total staff</b>	Employees	1,330
<b>Among which: (by work location)</b>		
Domestic	Employees	1,330
Overseas	Employees	0
<b>Among which: (by labour contract type)</b>		
Indefinite term	Employees	544
Fixed term	Employees	786
A term until completion of certain work	Employees	0
<b>Among which: (by age group)</b>		
29 or below	Employees	474
30-39	Employees	587
40-49	Employees	208
50-54	Employees	45
55 or above	Employees	16
<b>Among which: (by gender)</b>		
Male	Employees	710
Female	Employees	620
<b>New employees during the Reporting Period</b>	Employees	276
<b>Staff loss ratio during the year</b>	%	10

## Section 10 Environmental, Social and Governance Report

### (II) Health and Safety

The Company has formulated the “Safety Production Management System of Guolian Securities Co., Ltd.”, requires every branch to conduct regular self-inspection on safety production, and the Company conducts regular specialized inspection on safety production of each branch. At the same time, the Company has organized staff to learn about relevant safety production management system regularly to improve their occupational safety awareness and enable them to work in a safe environment.

According to seasonal changes, the Company adopts specific measures to improve heatstroke prevention and cold prevention, and pays heatstroke prevention expenses on a timely basis. The Company organizes regular physical health examination for staff and specialized physical examination for female staff.

The Company strictly complies with the relevant occupational health and safety regulations incorporating “Measures on Identification of Work-related Injuries”(《工傷認定辦法》) and “Regulations of Insurance for Work-related Injuries”(《工傷保險條例》). During the Reporting Period, there was no accident of work-related injuries in the Company.

### (III) Development and Training

The Company regards staff development as one of the most important drivers for its development. According to industry characteristics and with reference to the existing human resource structure, the Company optimizes the staff development channels and improves the staff appraisal and talents appraisal mechanism to promote a healthy development in staff structure.

The Company provides diversified training programs at all levels in order to constantly improve the professional ability and quality of managerial employees. In addition to face-to-face trainings, there are additional trainings including studying seminar, video study, online study, mobile study, etc. in recent years. The Company provides reserve cadres and management personnel at all levels with trainings for the purpose of enhancing their understanding of the development of the industry, innovating strategic thinking and improving management skills, etc., and also offers trainings to improve business knowledge and promote professional skills for employees of various business segments.

At the same time, the Company encourages employees to study by themselves through improving degree-based academic education, taking various professional qualification examinations, etc. in order to timely update their professional knowledge. The Company also rewards employees who have obtained relevant certificates.

## Section 10 Environmental, Social and Governance Report

During the Reporting Period, the Company carried out various methods of education trainings, such as face-to-face trainings, external trainings and online study, and organized various trainings with a total of 2,900 employees participated in such trainings. The investment in trainings was over RMB2,500,000. During the Reporting Period, the statistics of the Company relating to training performance was summarized as follows:

Indicators	Unit	2016
<b>Total training hours</b>	Hours	94,300
<b>Number of employees participating in trainings (by training content)</b>		
Face-to-face trainings	Hours	11,000
External trainings	Hours	6,300
Online study	Hours	77,000
<b>Average training hours per employee participating in training</b>	Hours	85.7

### (IV) Labour Standard

The Company strictly complies with “Labour Contract Law”, “Labour Protection Methods for Female Staff”, “Provisions on Prohibition of Using Child Labor” and other relevant management policies. By adhering to standardized employment according to laws, the Company has built necessary staff recruitment information collection and approval procedures to ensure the implementation and performance of the relevant systems. During the Reporting Period, there was no incidence of non-compliance with relevant rules and systems in the Company.

### (V) Product Liability<sup>1</sup>

#### Service Quality

The Company strictly complies with Contract Law, Securities Law and other relevant management measures, temporary provisions and implementing regulations. During the Reporting Period, there was no violation of relevant laws and regulations.

<sup>1</sup> As the Group is mainly engaged in the securities brokerage, investment banking, asset management and investment, proprietary trading and credit transactions and other businesses, during the Reporting Period, no disclosure was made regarding the indicators relating to product quality, packaging materials, advertisement, labels which were not of significant environmental related issues to the Company and hence not applicable to us.

## Section 10 Environmental, Social and Governance Report

The Company adheres to the service philosophy of “Guolian Securities, All for You”. By keeping customer-prioritized and regarding customers as the most valuable treasures of an enterprise, we always regard protecting investors’ interests as our responsibility and strive to provide quality service for customers and minority shareholders continuously.

The Company stringently implemented the moderate management requirements of investors and established smooth customer communication and coordination mechanism and sound complaint system arrangement. During 2016, the Company received a total of 13 customer complaints, which were properly handled through timely coordination by customer service center and branch tracking service. Customer satisfaction was improving and interests of investors were sufficiently safeguarded.

### Customer Privacy

The Company regards customer information security as the guarantee for corporate production and operation safety and healthy development of customer relationship. While perfecting the confidentiality management system, the Company has established the customer management system with compulsory mechanism at different levels and at different authorities, and set up safe customer information database to safeguard customer information protection. The Company strictly complies with the requirements of laws in the location where it operates to protect customer privacy. During the Reporting Period, there was no complaint of non-compliance in customer privacy or any relevant accepted or verified complaints that came to the attention to the Company.

### (VI) Anti-corruption

In strict compliance with relevant laws and regulations, the Company promotes compliance management and operation and strengthens the construction of integrity system while absolutely resisting commercial bribery. The Company has formulated relevant management systems in respect of clean administration construction accountability management, accountability appraisal as well as party conduct and clean administration construction education, staff violation treatment and leadership accountability and so on. Also, the Company has carried out anti-corruption education and training and developed convenient and effective monitoring network through various methods including whistleblowing platform, whistleblowing hotline and electronic mails, with an objective to penalize cases of commercial bribery and commercial corruption severely.

The Company carries out disciplinary inspection and supervision training to promote the professional supervision and audit capability and focuses on investment merger & acquisition, procurement bidding, operation management, etc. to conduct supervision and checking and urge the rectification of identified problems.

The Company attaches great importance to anti-money laundering. Through the adoption of a series of effective measures in 2016, the Company carried out anti-money laundering sturdily and effectively, further strengthens the anti-money laundering management and inspection, and continues to improve staff’s awareness of anti-money laundering. Meanwhile, the Company improves the anti-money laundering working quality and carries out anti-money laundering training and publicity proactively.



## Section 10 Environmental, Social and Governance Report

During the Reporting Period, the management of anti-corruption and anti-money laundering was summarized as follows:

Indicators	Unit	2016
<b>Number of corruption and bribery cases</b>	Cases	0
Number of employees punished for corruption and bribery	Employees	0
Times of anti-corruption and anti-money laundering education publicity	Times	1
Number of employees participating in anti-corruption and anti-money laundering education	Employees	1,000
Times of disciplinary inspection and supervision business training	Times	6
Number of employees participating in disciplinary inspection and supervision business training	Employees	242
Total hours of disciplinary inspection and supervision business training	Hours	8

### (VII) Community Investment

The Company's community investment objective is to achieve a harmonious development in conjunction with the place where the operation is located. In addition to helping community welfare, the Company also leverages on the international advantages and relies on business operation to contribute to the development of the community where the operation is located.

For the fulfillment of social responsibilities during the Reporting Period, please refer to "XIII. Other Disclosures (9) Fulfillment of Social Responsibilities" of Section 5 of this report.

# Independent Auditor's Report

**Deloitte.**

**德勤**

To the Shareholders of Guolian Securities Co., Ltd.

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

## Opinion

We have audited the consolidated financial statements of Guolian Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 175 to 304, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report

### Key audit matter

#### *Determination of consolidation scope*

We identified determination of consolidation scope as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group, as an investor, controls the structured entities.

The principle of control sets out the following three elements of control under IFRS 10: (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 the investor's returns.

The Group held interests in various structured entities including collective asset management schemes and investment funds where the Group was involved as both investment manager and investor. The Group considered the decision-making authority of the investees and assessed whether the combination of investments it held together with its remuneration and credit enhancements created exposure to variability of returns from the activities of the collective asset management schemes and investment funds that are of such significance that it indicated that the Group was a principal. The collective asset management schemes and investment funds were consolidated if the Group acted in the role of principal.

The Group also reassessed whether the controls over the structured entities would change if facts and circumstances indicated that there were changes to one or more of the three elements mentioned above.

Details of consolidated structured entities and unconsolidated structured entities are set out in Note 23 and 52 to the consolidated financial statements respectively.

### How our audit addressed the key audit matter

Our procedures in relation to management's determination of consolidation scope included:

- Understanding the Group's rights and obligations in relation to each of its material investments in structured entities by reviewing the related agreements and other related documents;
- Understanding the Group's assessment of its controls over their investees and determining consolidation scope of structured entities, which would include the consideration of the scope of its decision-making authority over the structured entities, the rights held by other relevant parties, the remuneration to which the Group would be entitled, the exposure to variability of returns from the interests that the Group held in the structured entities;
- Evaluating the reasonableness of management's assessment whether it is a principal or an agent and whether to consolidate or not for each of the significant structured entities;
- Checking to the financial reporting process for the proper consolidation of structured entities that have been concluded to have control over them by the Group in preparing the consolidated financial statements;
- Assessing the adequacy of disclosures being made in the consolidated financial statements required under IFRS 12 for those consolidated or unconsolidated structured entities.

## Independent Auditor's Report

### ***Impairment Assessment – Available-for-Sale Equity Investments***

We identified impairment assessment of available-for-sale equity investments as a key audit matter because the management of the Group applied judgement to assess whether there were any significant or prolonged decline in fair values below costs.

As at 31 December 2016, the Group held available-for-sale equity investments of RMB1,592 million, out of which RMB1,470 million were available-for-sales equity investments recorded at fair values. Details of the Group's available-for-sales equity investments are disclosed in Note 26 to the consolidated financial statements.

For these available-for-sale equity investments measured at fair value, judgment would be required when determining whether any decline in fair value would be regarded as significant comparing to the original costs of the financial assets at initial recognition, and whether the decline would be prolonged comparing to the period that the fair value has declined.

Our procedures in relation to management's impairment assessment of available-for-sale equity investments included:

- Understanding how the management has determined a decline in fair value below cost would be regarded as significant or prolonged and the key inputs used in the analysis;
- Checking those key inputs used by the management in the analysis against observable or unobservable market information;
- Assessing the reasonableness of the analysis and conclusion made by the management whether a significant or prolonged decline would be identified and properly recorded as impairment to profit and loss for the year.



## Independent Auditor's Report

### Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



## Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Ma Hing Fai.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 15 March 2017

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue			
Commission and fee income	6	1,316,948	2,235,533
Interest income	7	767,998	925,095
Net investment gains	8	240,612	665,954
Other income	9	10,109	6,604
<b>Total revenue and other income</b>		<b>2,335,667</b>	<b>3,833,186</b>
Commission and fee expenses	10	(281,594)	(436,744)
Interest expense	11	(301,493)	(460,075)
Staff costs	12	(567,789)	(563,090)
Depreciation and amortization	13	(53,771)	(44,007)
Other operating expenses	14	(257,046)	(432,160)
Impairment losses (reversal)	15	(100,774)	(55,200)
<b>Total expenses</b>		<b>(1,562,467)</b>	<b>(1,991,276)</b>
Share of profit of associates		27,539	29,629
Other gains, net	16	59,132	118,795
Profit before income tax		859,871	1,990,334
Income tax expense	17	(216,262)	(492,047)
<b>Profit for the year</b>		<b>643,609</b>	<b>1,498,287</b>
Attributable to:			
Owners of the Company		610,068	1,471,438
Non-controlling interests	18	33,541	26,849
		<b>643,609</b>	<b>1,498,287</b>
<b>Earnings per share</b> (Expressed in RMB per share)			
– Basic	19	0.32	0.88



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
<b>Profit for the year</b>	<b>643,609</b>	1,498,287
<b>Other comprehensive (expense) income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Share of other comprehensive (expense) income of associates	(2,717)	467
Available-for-sale financial assets		
– Changes in fair value	(4,355)	(73,946)
– Amounts reclassified to profit or loss upon disposal or impairment provision of available-for-sale financial assets	(12,352)	(137,883)
– Income tax effect	4,176	52,957
Other comprehensive (expense) income for the year, net of tax	(15,248)	(158,405)
<b>Total comprehensive income for the year</b>	<b>628,361</b>	1,339,882
Attributable to:		
Owners of the Company	594,820	1,313,033
Non-controlling interests	33,541	26,849
	<b>628,361</b>	1,339,882

# Consolidated Statement of Financial Position

As at 31 December 2016

	NOTES	2016/12/31 RMB'000	2015/12/31 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	21	105,572	103,640
Goodwill	22	–	–
Intangible assets		27,625	28,580
Investments in associates	24	219,256	203,498
Other non-current assets	25	20,178	18,990
Available-for-sale financial assets	26	887,418	753,025
Deferred income tax assets	27	8,605	92
Refundable deposits	28	80,216	128,144
<b>Total non-current assets</b>		<b>1,348,870</b>	<b>1,235,969</b>
<b>Current assets</b>			
Other current assets	29	265,035	239,346
Available-for-sale financial assets	26	776,601	819,400
Margin accounts receivable	30	4,353,213	6,085,353
Financial assets held under resale agreements	31	1,981,396	1,546,219
Derivative financial assets	32	–	57
Financial assets at fair value through profit or loss	33	2,732,492	2,594,049
Clearing settlement funds	34	3,296,270	4,359,730
Cash held for brokerage clients	35	6,773,686	10,332,986
Cash and bank balances	36	2,464,918	3,960,527
<b>Total current assets</b>		<b>22,643,611</b>	<b>29,937,667</b>
<b>Total assets</b>		<b>23,992,481</b>	<b>31,173,636</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	37	1,902,400	1,902,400
Share premium	38	2,178,478	2,178,478
Reserves	38	1,672,232	1,522,573
Retained earnings		1,816,033	2,131,832

# Consolidated Statement of Financial Position

As at 31 December 2016

	NOTES	2016/12/31 RMB'000	2015/12/31 RMB'000
<b>Total equity attributable to shareholders of the Company</b>		<b>7,569,143</b>	7,735,283
Non-controlling interests		<b>327,027</b>	293,486
<b>Total equity</b>		<b>7,896,170</b>	8,028,769
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	27	–	30,186
Bonds in issue	39	<b>1,500,000</b>	1,800,000
<b>Total non-current liabilities</b>		<b>1,500,000</b>	1,830,186
<b>Current liabilities</b>			
Other current liabilities	40	<b>436,573</b>	590,220
Current income tax liabilities		<b>63,712</b>	95,001
Bonds in issue	39	<b>1,800,000</b>	3,850,000
Derivative financial liabilities	32	<b>244</b>	17
Financial assets sold under repurchase agreements	42	<b>882,240</b>	427,996
Financial liabilities at fair value through profit or loss	43	<b>1,787,478</b>	2,794,146
Accounts payable to brokerage clients	44	<b>9,626,064</b>	13,557,301
<b>Total current liabilities</b>		<b>14,596,311</b>	21,314,681
<b>Total liabilities</b>		<b>16,096,311</b>	23,144,867
<b>Total equity and liabilities</b>		<b>23,992,481</b>	31,173,636

The consolidated financial statements on pages 175 to 304 were approved and authorised for issue by the Board of Directors on 15 March 2017 and signed on behalf by:

**Yao Zhiyong**

*Chairman of the Board and non-Executive Director*

**Peng Yanbao**

*Executive Director and President*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to shareholders of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000			
<b>Balance at 1 January 2016</b>	<b>1,902,400</b>	<b>2,178,478</b>	<b>1,522,573</b>	<b>2,131,832</b>	<b>7,735,283</b>	<b>293,486</b>	<b>8,028,769</b>	
Profit for the year	-	-	-	610,068	610,068	33,541	643,609	
Other comprehensive income (expense) for the year	-	-	(15,248)	-	(15,248)	-	(15,248)	
<b>Total comprehensive income (expense) for the year</b>	<b>-</b>	<b>-</b>	<b>(15,248)</b>	<b>610,068</b>	<b>594,820</b>	<b>33,541</b>	<b>628,361</b>	
Dividends recognized as distribution	-	-	-	(760,960)	(760,960)	-	(760,960)	
Appropriation to general reserves	-	-	164,907	(164,907)	-	-	-	
<b>Balance at 31 December 2016</b>	<b>1,902,400</b>	<b>2,178,478</b>	<b>1,672,232</b>	<b>1,816,033</b>	<b>7,569,143</b>	<b>327,027</b>	<b>7,896,170</b>	
<b>Balance at 1 January 2015</b>	<b>1,500,000</b>	<b>135,638</b>	<b>1,264,407</b>	<b>1,181,965</b>	<b>4,082,010</b>	<b>266,637</b>	<b>4,348,647</b>	
Profit for the year	-	-	-	1,471,438	1,471,438	26,849	1,498,287	
Other comprehensive income (expense) for the year	-	-	(158,405)	-	(158,405)	-	(158,405)	
<b>Total comprehensive income (expense) for the year</b>	<b>-</b>	<b>-</b>	<b>(158,405)</b>	<b>1,471,438</b>	<b>1,313,033</b>	<b>26,849</b>	<b>1,339,882</b>	
Issuance of ordinary shares, net	402,400	2,042,840	-	-	2,445,240	-	2,445,240	
Dividends recognized as distribution	-	-	-	(105,000)	(105,000)	-	(105,000)	
Appropriation to general reserves	-	-	416,571	(416,571)	-	-	-	
<b>Balance at 31 December 2015</b>	<b>1,902,400</b>	<b>2,178,478</b>	<b>1,522,573</b>	<b>2,131,832</b>	<b>7,735,283</b>	<b>293,486</b>	<b>8,028,769</b>	

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>859,871</b>	1,990,334
Adjustments for:		
Depreciation and amortisation	53,771	44,007
Impairment losses	100,774	30,988
Net gains on disposal of property and equipment and other intangible assets	(368)	61
Unrealised fair value change of financial instruments at fair value through profit or loss	(12,024)	-
Foreign exchange gains	(55,978)	(113,076)
Share of profit of associates	(27,539)	(29,629)
Interest expense of bonds in issue and short-term notes	336,946	263,769
Realised gains from disposal of available-for-sale financial assets	(125,605)	(265,268)
Dividends and interest income from available-for-sale financial assets	(16,846)	(40,335)
Realised gains from disposal of held-to-maturity financial assets	-	(155)
Interest income on held-to-maturity financial assets	-	(160)
Operating cash flows before movements in working capital	<b>1,113,002</b>	1,880,536
Net decrease/(increase) in margin accounts receivable	<b>1,737,352</b>	(2,346,995)
Net decrease/(increase) in financial assets held for trading and derivative financial assets	<b>(206,554)</b>	1,685,787
Net decrease/(increase) in financial assets held under resale agreements	<b>481,457</b>	(85,310)
Net decrease/(increase) in refundable deposits	<b>47,928</b>	(40,061)
Net decrease/(increase) in cash held for brokerage clients	<b>3,559,301</b>	(4,614,253)
Net increase in clearing settlement funds	<b>562,700</b>	(1,198,669)
Net increase in other assets	<b>(26,398)</b>	(49,191)
Net increase/(decrease) in accounts payable to brokerage customers	<b>(3,931,237)</b>	5,788,519
Net increase/(decrease) in financial assets sold under repurchase agreements	<b>454,244</b>	(1,823,102)
Net decrease in due to other financial institutions	-	(550,000)
Net increase/(decrease) in other liabilities	<b>(149,290)</b>	209,634
Net increase/(decrease) in financial liabilities at fair value through profit or loss and derivative financial liabilities	<b>(926,251)</b>	298,694
Cash generated from/(used in) operations	<b>2,716,254</b>	(844,411)
Income taxes paid, net	<b>(282,074)</b>	(517,315)
<b>Net cash generated by/(used in) operating activities</b>	<b>2,434,180</b>	(1,361,726)

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
<b>Cash flows from investing activities</b>			
Dividends and interest received from investments		16,846	40,495
Dividends received from investments in associates		15,064	15,139
Proceeds on disposal of property and equipment, intangible assets and other long-term assets		507	498
Purchase of property and equipment, intangible assets and other long-term assets		(56,093)	(43,513)
Cash paid for purchase of available-for-sale financial assets and term deposit		(1,040,563)	(2,768,128)
Cash received from disposal of available-for-sale financial assets and term deposit		948,731	2,107,226
Cash received from disposal of held-to-maturity financial assets		-	10,155
Proceeds from disposal of the investment in associates		-	15,930
Payment for investments in associates		(6,000)	(10,000)
<b>Net cash used in investing activities</b>		<b>(121,508)</b>	<b>(632,198)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of ordinary shares		-	2,445,240
Dividends paid		(760,960)	(105,000)
Cash received from additional bonds and short term notes in issue		2,100,000	5,310,000
Cash paid from repayment of bonds and short term notes in issue		(4,450,000)	(2,110,000)
Interest expense of bonds and short term notes in issue		(336,946)	(263,770)
<b>Net cash generated by/(used in) financing activities</b>		<b>(3,447,906)</b>	<b>5,276,470</b>
Effect of exchange rate changes on the balance of cash held in foreign currencies		55,978	113,076
Net increase/(decrease) in cash and cash equivalents		(1,135,234)	3,282,546
Cash and cash equivalents at the beginning of the year		4,867,904	1,472,282
<b>Cash and cash equivalents at the end of the year</b>	45	<b>3,788,648</b>	4,867,904



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. General information of the group

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 RMB32,000 thousand. On 8 January 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 16 May 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).

The Company completed its initial public offering of overseas-listed foreign shares (“H” shares) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on 6 July 2015. Under the offering, the Company issued a total of 402,400 thousand shares with a nominal value of RMB1 per share. After this public offering, total share capital of the Company increased to RMB1,902,400 thousand.

As at 31 December 2016, the registered capital of the Company is RMB1,902,400 thousand. The Company holds the securities institution license No.13120000 and business license No.91320200135914870B. 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.

These consolidated financial statements were authorised for issue by the Board of Directors (the “Board”) on 15 March 2017.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 2. Application of new and revised international financial reporting standards

In the current year, the Group has applied for the first time the following revised International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

The application of the amendments to IFRSs in the current year had no material impact on the Group’s financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 7	Disclosure Initiative <sup>4</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle <sup>5</sup>





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 2. Application of new and revised international financial reporting standards (continued)

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

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2018
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2019
- <sup>3</sup> Effective for annual periods beginning on or after a date to be determined
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2017
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except for the following new IFRSs, directors of the Company are of the view that the application of these new and revised but not yet effective IFRSs is unlikely to have a significant impact on the consolidated financial statements:

#### IFRS 9 Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 2. Application of new and revised international financial reporting standards (continued)

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

#### IFRS 9 Financial instruments (continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 2. Application of new and revised international financial reporting standards (continued)

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

##### IFRS 9 Financial instruments (continued)

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-in-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation of criteria). Furthermore, the expected credit loss model may result in early recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

##### IFRS 15 Revenue from contracts with customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

In 2016, the International Accounting Standards Board ("IASB") issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 2. Application of new and revised international financial reporting standards (continued)

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

#### IFRS 15 Revenue from contracts with customers (continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1 : Identify the contract(s) with a customer
- Step 2 : Identify the performance obligations in the contract
- Step 3 : Determine the transaction price
- Step 4 : Allocate the transaction price to the performance obligations in the contract
- Step 5 : Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the directors of the Company performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 2. Application of new and revised international financial reporting standards (continued)

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

##### IFRS 16 Leases

IFRS 16 Leases was issued by IASB in January 2016. It will be effective for annual periods beginning on or after January 1, 2019. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As the Group does not have material lease commitment as a lessor, the Group will be principally impacted by the new standard due to its role as a lessee.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and/or operating cash flows respectively.

As set out in note 47, total operating lease commitment of the Group in respect of rental payment as at 31 December 2016 amounted to RMB175,176 thousands (31 December 2015: RMB129,522 thousands), the directors of the Company expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International IFRSs which comprise all standards and interpretations approved by the IASB and the disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Hong Kong Companies Ordinance ("CO").

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis (except for financial instruments and property that are measured at fair values) at the end of each reporting period, 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.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Share-based Payment or value in use in IAS 36 Impairment of Assets.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities (SEs)) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Basis of consolidation (continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When the Group has decision-making rights (a decision maker) over a structured entity, the Group considers the overall relationship with the relevant structured entity and other investors involved with the structured entity, in particular all the factors below, in determining whether the Group is acting as an agent or principal:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the Group's exposure to variability of returns from other interests that it holds in the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Basis of consolidation (continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income and expense of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any.

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Investments in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

### Investments accounted for using equity method

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Investments accounted for using equity method (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Property and equipment

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

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

Classes	Estimated residual value rates	Useful lives
Buildings	0 – 5%	30 years
Motor vehicles	0 – 5%	6 years
Electronics and other equipment	0 – 5%	2 – 5 years



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Intangible assets

##### Intangible assets acquired separately

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

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

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

#### Leasing

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

##### The Group as lessor

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

##### The Group as lessee

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Leasehold land and building

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

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

### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

#### Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the PRC, including social insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

#### Contributions to pension schemes and annuity plans

Payments to defined contribution retirement benefits plan are charged as expenses when employees have rendered service entitling them to the contributions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before income tax” as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Taxation (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Financial instruments

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

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

#### Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income is included in net gains or losses.

##### *Financial assets at fair value through profit or loss*

Financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL.

A financial asset is classified as held for trading if:

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

##### *Financial assets at fair value through profit or loss (continued)*

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- 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
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to customers on margin financing, accounts receivable, interest receivables, other receivables, financial assets held under resale agreements, clearing settlement funds, cash held for brokerage clients and bank balances etc.), are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net investment gains.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity:

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

##### *Available-for-sale investments*

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

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of reserves. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the reserves is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

##### *Impairment of financial assets*

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Impairment of financial assets (continued)*

For certain categories of financial asset, such as advances to customers on margin financing and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment. The group takes into account the amount and nature of the financial assets held by the group in order to determine the individual significant financial assets. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

###### *Impairment of financial assets (continued)*

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

When an available-for-sale investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Financial instruments (continued)

#### Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

#### Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading, financial liabilities designated at FVTPL.

A financial liability is classified as financial liabilities held for trading if:

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Financial instruments (continued)

##### Financial liabilities and equity instruments (continued)

##### *Financial liabilities at FVTPL (continued)*

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or
- the financial liability 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
- it forms part of a contract containing one or more embedded derivative, and IAS 39 permits the entire combined contract (assets or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the line item in profit or loss and excludes any interest paid on the financial liabilities.

##### *Financial liabilities at amortised cost*

Financial liabilities including bonds in issue, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables are subsequently measured at amortised cost, using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### Financial instruments (continued)

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

#### Derivative financial instruments

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

#### Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Financial instruments (continued)

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

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

##### Securities lending

The Group lends securities to clients and the cash collaterals balance required under the securities lending agreements and the interest arisen from these are classified as “accounts payable to brokerage clients”. For those securities held by the Group lent to clients that do not result in the derecognition of financial assets, they are included in related financial assets.

##### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of transferred financial assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

The Group derecognised financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. Significant accounting policies and basis of preparation (continued)

### 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.

### Revenue recognition

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

- (i) Commission income for broking business is recorded as income on a trade date basis, and handling fee income arising from broking business is recognised when services are rendered;
- (ii) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (iii) Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- (iv) Financial advisory and consultancy fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- (v) Assets management fee income is recognised when management services are provided in accordance with the management contracts.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. Significant accounting policies and basis of preparation (continued)

#### Impairment on tangible and intangible assets other than goodwill and financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) or in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 4. Key sources of estimation uncertainty and critical accounting judgment

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The Group reviewed the estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Impairment of advances to customers

The Group reviews its advances to customers to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment that will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The Group reviewed the methodology and assumptions used for estimating both the amount and timing of future cash flows regularly to reduce any differences between loss estimates and actual loss experience. Details of advances to customers are set out in Note 30 and 31.

### Impairment of available-for-sale investments

The determination of whether an available-for-sale investment is impaired requires significant judgment. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgment is also required to determine whether historical performance remains representative of current and future economic conditions. Details of the available-for-sale investments are set out in Note 26.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 4. Key sources of estimation uncertainty and critical accounting judgment (continued)

#### Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments and discounted cash flow analysis. To the extent practical market observable inputs and data, such as interest rate yield curves, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

#### Income taxes

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

The realisation of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the deductible temporary differences are disclosed in note 27.

#### 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 sets out the following three elements of control: (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 the investor's returns.

For collective asset management schemes and investment funds where the Group involves as manager and also as investor, the Group considers the scope of its decision-making authority and assesses whether the combination of investments it holds together with its remuneration and credit enhancements creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that is of such significance that it indicates that the Group is a principal. The collective asset management schemes and investment funds are consolidated if the Group acts in the role of principal.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. 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 and market maker business;
- (d) Proprietary trading: trading in financial products;
- (e) Asset management and investment: direct investments and funds related business, 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 year ended 31 December 2016.

The Group mainly operates in Jiangsu Province, the PRC. Almost all of the revenue and other income of the Group are generated in the PRC.

Non-current assets of the Group are all located in the PRC.

No income from any single customer contributed over 10% of the total revenue and other income of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. Segment Analysis (continued)

Year ended 31 December 2016

	Securities brokerage	Credit transaction	Investment banking	Proprietary trading	Asset management and investment	Other	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Total revenue and other income</b>								
Commission and fee income								
– external	795,432	-	457,610	-	63,906	-	-	1,316,948
– internal	-	-	11,085	-	-	-	(11,085)	-
Interest income								
– external	212,102	432,483	29,453	4,195	28,254	61,511	-	767,998
– internal	-	-	-	-	-	-	-	-
Net investment gains								
– external	-	-	47,072	142,957	50,583	-	-	240,612
– internal	-	-	-	-	-	-	-	-
Other income								
– external	1,551	-	-	-	-	8,558	-	10,109
– internal	-	-	-	-	-	750	(750)	-
<b>Total expenses</b>	<b>(589,093)</b>	<b>(256,488)</b>	<b>(395,307)</b>	<b>(75,366)</b>	<b>(37,530)</b>	<b>(220,518)</b>	<b>11,835</b>	<b>(1,562,467)</b>
<b>Operating profit</b>	<b>419,992</b>	<b>175,995</b>	<b>149,913</b>	<b>71,786</b>	<b>105,213</b>	<b>(149,699)</b>	<b>-</b>	<b>773,200</b>
Other gains, net								
– external	1,932	-	2,646	-	(4,818)	59,372	-	59,132
– internal	-	-	-	-	-	-	-	-
Share of profit of investments in associates	-	-	-	-	77	27,462	-	27,539
<b>Profit before income tax</b>	<b>421,924</b>	<b>175,995</b>	<b>152,559</b>	<b>71,786</b>	<b>100,472</b>	<b>(62,865)</b>	<b>-</b>	<b>859,871</b>
<b>Total assets</b>	<b>8,928,378</b>	<b>6,715,269</b>	<b>1,652,310</b>	<b>2,110,374</b>	<b>2,778,953</b>	<b>2,541,062</b>	<b>(733,865)</b>	<b>23,992,481</b>
<b>Total liabilities</b>	<b>8,838,910</b>	<b>4,127,812</b>	<b>639,545</b>	<b>103,635</b>	<b>2,142,081</b>	<b>244,328</b>	<b>-</b>	<b>16,096,311</b>
Supplemental information								
Depreciation and amortisation	13,850	198	2,282	14	10	37,417	-	53,771
Impairment losses (reversal)	1,948	(1,661)	(32,574)	(67,240)	(410)	(837)	-	(100,774)
Capital expenditure	10,146	12	3,739	15	21	42,160	-	56,093

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. Segment Analysis (continued)

Year ended 31 December 2015

	Securities brokerage RMB'000	Credit transaction RMB'000	Investment banking RMB'000	Proprietary trading RMB'000	Asset management and investment RMB'000	Other RMB'000	Elimination RMB'000	Total RMB'000
<b>Total revenue and other income</b>								
Commission and fee income								
– external	1,881,992	–	315,514	–	38,027	–	–	2,235,533
– internal	–	–	3,500	–	–	–	(3,500)	–
Interest income								
– external	254,821	541,318	30,343	327	31,135	67,151	–	925,095
– internal	–	–	–	–	–	–	–	–
Net investment gains								
– external	–	(6,987)	57,856	516,664	98,421	–	–	665,954
– internal	–	–	–	–	–	–	–	–
Other income								
– external	1,370	154	–	–	–	5,080	–	6,604
– internal	–	–	–	–	–	3,000	(3,000)	–
<b>Total expenses</b>	<b>(883,886)</b>	<b>(268,840)</b>	<b>(271,081)</b>	<b>(77,294)</b>	<b>(43,183)</b>	<b>(452,416)</b>	<b>5,424</b>	<b>(1,991,276)</b>
<b>Operating profit</b>	<b>1,254,297</b>	<b>265,645</b>	<b>136,132</b>	<b>439,697</b>	<b>124,400</b>	<b>(377,185)</b>	<b>(1,076)</b>	<b>1,841,910</b>
Other gains, net								
– external	4,802	–	4,971	–	–	109,022	–	118,795
– internal	–	–	–	–	–	–	–	–
Share of profit of investments in associates	–	–	–	–	47	29,582	–	29,629
<b>Profit before income tax</b>	<b>1,259,099</b>	<b>265,645</b>	<b>141,103</b>	<b>439,697</b>	<b>124,447</b>	<b>(238,581)</b>	<b>(1,076)</b>	<b>1,990,334</b>
<b>Total assets</b>	<b>12,280,892</b>	<b>8,894,762</b>	<b>1,133,593</b>	<b>1,380,457</b>	<b>3,820,426</b>	<b>4,397,431</b>	<b>(733,925)</b>	<b>31,173,636</b>
<b>Total liabilities</b>	<b>10,632,633</b>	<b>3,000,000</b>	<b>199,733</b>	<b>7,244</b>	<b>3,228,705</b>	<b>6,076,552</b>	<b>–</b>	<b>23,144,867</b>
<b>Supplemental information</b>								
Depreciation and amortisation	26,527	1,519	3,293	210	125	12,333	–	44,007
Impairment losses (reversal)	–	(21,036)	–	–	(30,849)	(3,315)	–	(55,200)
Capital expenditure	11,243	601	1,493	21	652	31,379	–	45,389

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 6. Commission and fee income

	2016	2015
	RMB'000	RMB'000
Securities brokerage	795,432	1,881,992
Underwriting and sponsorship	370,672	255,323
Investment consultancy and financial advisory	86,938	59,831
Asset management	63,906	38,387
	<b>1,316,948</b>	<b>2,235,533</b>

### 7. Interest income

	2016	2015
	RMB'000	RMB'000
Interest income from margin financing and securities lending	361,443	465,188
Interest income from bank deposits	315,248	377,260
Interest income from financial assets held under resale agreements	91,307	82,647
	<b>767,998</b>	<b>925,095</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 8. Net investment gains

	2016	2015
	RMB'000	RMB'000
Net gains from disposal of available-for sale financial assets	<b>125,605</b>	265,268
Dividends and interest income from available-for sale financial assets	<b>16,846</b>	40,335
Realised gains from disposal of financial assets		
at fair value through profit or loss	<b>52,508</b>	568,498
Distribution to interest holders of consolidated SEs	<b>(123,715)</b>	(252,624)
Dividends and interest income from financial assets		
at fair value through profit or loss	<b>148,084</b>	182,715
Realised gains from disposal of held to maturity financial assets	-	155
Interest income on held-to-maturity financial assets	-	160
Net realised gains/(losses) from derivative financial instruments	<b>9,260</b>	23,949
Unrealised fair value change of financial instruments		
at fair value through profit or loss		
- Financial assets at fair value through profit or loss	<b>(68,478)</b>	(105,304)
- Derivative financial instruments	<b>85</b>	2,164
- Financial liabilities at fair value through profit or loss	<b>80,417</b>	(59,362)
	<b>240,612</b>	665,954

## 9. Other income

	2016	2015
	RMB'000	RMB'000
Rental income	<b>9,959</b>	5,737
Others	<b>150</b>	867
	<b>10,109</b>	6,604

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 10. Commission and fee expenses

	2016	2015
	RMB'000	RMB'000
Securities brokerage	209,565	411,295
Underwriting and sponsorship	71,849	25,366
Investment consultancy and financial advisory	180	83
	281,594	436,744

### 11. Interest expenses

	2016	2015
	RMB'000	RMB'000
Interest expense of bond in issue	122,989	259,269
Interest expense of financial assets sold under repurchase agreement	17,081	103,953
Interest expense of accounts payable to brokerage clients	43,963	57,701
Interest expense of short-term notes	117,448	4,500
Interest expenses of due to other financial institutions	12	34,652
	301,493	460,075

### 12. Staff costs (including directors' and supervisors' remuneration)

	2016	2015
	RMB'000	RMB'000
Salaries and bonus	453,527	472,011
Pension	59,983	49,284
Other social security	30,548	23,163
Labor union funds and employee education funds	6,536	5,967
Other welfare	17,195	12,665
	567,789	563,090

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 12. Staff costs (including directors' and supervisors' remuneration) (continued)

#### 12.1 The five highest paid individuals

For the year ended 31 December 2016, the five highest paid individuals do not include any of the directors or supervisors.

Details of the remuneration for the five highest paid individuals for the relevant year are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries allowances and other welfares	9,522	11,010
Bonus	21,234	17,835
	<b>30,756</b>	<b>28,845</b>

The remuneration of the senior management and individuals by range:

	Number of Employees	
	2016	2015
HKD3,000,001 to HKD5,000,000	–	2
HKD5,000,001 to HKD7,000,000	3	1
HKD7,000,001 to HKD9,000,000	1	2
HKD9,000,001 to HKD11,000,000	1	–
	<b>5</b>	<b>5</b>

The Group has not provided any compensation to any of the 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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 13. Depreciation and amortisation

	2016	2015
	RMB'000	RMB'000
Depreciation of property, plant and equipment	21,276	17,194
Amortisation of intangible assets	24,450	15,683
Amortisation of long-term prepaid expense	8,045	11,130
	<b>53,771</b>	44,007

### 14. Other operating expenses

	2016	2015
	RMB'000	RMB'000
Tax and surcharges	44,489	175,845
Rentals	57,211	54,561
Office expenses	43,750	54,523
Marketing and distribution expenses	17,939	38,626
Securities investors protection fund	13,659	30,387
Travelling expenses	23,647	23,347
Consulting expenses	9,727	7,377
Electronic device operating costs	11,683	5,644
Professional service expenses	16,462	5,431
Auditors remuneration		
– Auditor's remuneration – audit services (Note)	2,160	3,450
– Auditor's remuneration – non-audit services	–	732
Others	16,319	32,237
	<b>257,046</b>	432,160

Note: Auditor's remuneration for statutory audit of the Group for the year ended 31 December 2016 were included in auditor's remuneration (2015: the same). The statutory financial statements were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP (2015: Jiangsu Gongzheng Tianye Certified Public Accountants LLP).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 15. Impairment losses (Reversal)

	2016	2015
	RMB'000	RMB'000
Available-for sale financial assets	109,135	30,988
Margin account receivable	(5,212)	18,311
Account receivable	(3,627)	3,176
Financial assets held under resale agreement	478	2,725
	100,774	55,200

## 16. Other gains, net

	2016	2015
	RMB'000	RMB'000
Foreign exchange gains	55,978	113,076
Others	3,154	5,719
	59,132	118,795

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 17. Income tax expense

	2016	2015
	RMB'000	RMB'000
Current income tax expense		
– Mainland China	250,785	524,039
Deferred taxation		
– Mainland China (Note 27)	(34,523)	(31,992)
Income tax		
–Mainland China	216,262	492,047

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2016	2015
	RMB'000	RMB'000
Profit before income tax	859,871	1,990,334
Tax calculated at applicable statutory tax rate of 25%	214,968	497,583
Income not subject to tax	(5,637)	(7,478)
Items not deductible for tax purposes	1,956	2,420
Adjustment in respect of prior years	4,975	(478)
	216,262	492,047

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 18. Profit attributable to non-controlling interests

	2016	2015
	RMB'000	RMB'000
Hua Ying Securities Co., Ltd	33,541	26,849

## 19. Earnings per share

### 19.1 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.

	2016	2015
Profit attributable to shareholders of the Company (RMB'000)	610,068	1,471,438
Weighted average number of ordinary shares in issue (in thousand)	1,902,400	1,667,667
Basic earnings per share (in RMB)	0.32	0.88

### 19.2 Diluted earnings per share

For the year ended 31 December 2016, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share (2015: same).



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 20. Dividends

A dividend in respect of the year ended 31 December 2016 of RMB0.14 per share, amounting to a total dividend of RMB266,336 thousand, is to be proposed at the annual general meeting (2015: RMB0.40 per share, amounting to a total dividend of RMB760,960 thousand). These consolidated financial statements do not reflect the dividend payable.

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:

- (1) Making up cumulative losses from prior years, if any;
- (2) 10% of the Company’s profit is appropriated to the non-distributable statutory surplus reserve;
- (3) 10% of the Company’s profit is appropriated to the non-distributable general reserve;
- (4) 10% of the Company’s profit is appropriated to the non-distributable transaction risk reserve;
- (5) Appropriations to the discretionary surplus reserve with approval from the General Meeting 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 (1) the retained profits determined in accordance with People’s Republic of China Generally Accepted Accounting Principals (“PRC GAAP”) and (2) the retained profit determined in accordance with IFRSs.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 21. Property and equipment

	Buildings RMB'000	Motor vehicles RMB'000	Electronics and other equipment RMB'000	Total RMB'000
<b>Cost</b>				
1 January 2016	155,303	10,769	146,244	312,316
Additions	–	–	23,347	23,347
Disposals	–	(1,350)	(7,536)	(8,886)
31 December 2016	155,303	9,419	162,055	326,777
<b>Accumulated depreciation</b>				
1 January 2016	(78,539)	(8,140)	(121,997)	(208,676)
Additions	(5,530)	(1,245)	(14,501)	(21,276)
Disposals	–	1,283	7,464	8,747
31 December 2016	(84,069)	(8,102)	(129,034)	(221,205)
<b>Carrying amount</b>				
31 December 2016	71,234	1,317	33,021	105,572

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 21. Property and equipment (continued)

	Buildings	Motor vehicles	Electronics and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>				
1 January 2015	155,303	10,396	138,402	304,101
Additions	–	924	15,819	16,743
Disposals	–	(551)	(7,977)	(8,528)
31 December 2015	155,303	10,769	146,244	312,316
<b>Accumulated depreciation</b>				
1 January 2015	(73,001)	(7,399)	(119,049)	(199,449)
Additions	(5,538)	(1,292)	(10,364)	(17,194)
Disposals	–	551	7,416	7,967
31 December 2015	(78,539)	(8,140)	(121,997)	(208,676)
<b>Carrying amount</b>				
31 December 2015	76,764	2,629	24,247	103,640

For the year ended 31 December 2016, gains from disposal of property and equipment amounted to RMB368 thousand (2015: RMB97 thousand).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 22. Goodwill

Goodwill of the Group arose from its acquisition of securities branches. The Group recognised 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).

Based on value in use calculations, it was estimated that goodwill had been fully impaired. Therefore, goodwill impairment was fully provided.

## 23. Subsidiaries and consolidated structured entities

### 23.1 General information of principal subsidiaries

The following were principal subsidiaries of the Group as at 31 December 2016. The equity interests in these subsidiaries were all ordinary shares and directly held by the Company, 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 interests held by the Group		Principal
				31 December 2016	31 December 2015	
Hua Ying Securities Co., Ltd.	April 2011	Wuxi, PRC	800,000	66.70%	66.70%	Underwriting and sponsor
Guolian Tongbao Capital Investment Co., Ltd.	January 2010	Wuxi, PRC	200,000	100.00%	100.00%	Investment holding



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 23. Subsidiaries and consolidated structured entities (continued)

#### 23.2 Material non-controlling interests

Set out below is the summarised financial information for a 66.7% owned subsidiary, Hua Ying Securities Co., Ltd. which has non-controlling interests that are material to the Group. The amounts disclosed are before intercompany eliminations.

##### (1) Summarised statements of financial position

	2016	2015
	RMB'000	RMB'000
Non-Current assets	7,590	4,152
Current assets	1,604,080	1,077,244
Total assets	1,611,670	1,081,396
Non-Current liabilities	–	–
Current liabilities	(629,342)	(199,733)
Total liabilities	(629,342)	(199,733)
Net assets	982,328	881,663
Total equity attributable to shareholders of the Company	655,301	588,177
Non-controlling interests	327,027	293,486

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23. Subsidiaries and consolidated structured entities (continued)

### 23.2 Material non-controlling interests (continued)

#### (2) Summarised statements of profit or loss and other comprehensive income

	2016	2015
	RMB'000	RMB'000
Revenue	391,460	326,096
Profit before income tax	135,164	109,206
Income tax expense	(34,499)	(28,640)
Post-tax profit	100,665	80,566
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>100,665</b>	<b>80,566</b>
Total comprehensive income attribute to Non-controlling interests	33,541	26,849
Dividends paid to non-controlling interests	-	-

#### (3) Summarised statements of cash flows

	2016	2015
	RMB'000	RMB'000
Net cash generated from operating activities	357,029	191,450
Net cash generated from/(used in) investing activities	(3,673)	8,968
<b>Net increase in cash and cash equivalents</b>	<b>353,358</b>	<b>200,418</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 23. Subsidiaries and consolidated structured entities (continued)

#### 23.3 Consolidated structured entities

As at 31 December 2016, total assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

	Total assets RMB'000	Initial investment RMB'000	Maximum RMB'000
Investments in consolidated SEs by the Company			
Huifu No.1	1,104,234	95,558	215,855
Xianjintianli No.1	454,067	10,000	10,000
Jinrui No.5	13,451	2,566	2,294
Jinrui No.6	404,531	44,154	37,935
Dingzengjingxuan No.11	95,128	19,900	15,254
Dingzengbao No.3	138,356	10,000	11,023
Yurui No.2	248,340	38,950	42,232
Dongwuhuiying No.106	72,305	103,292	72,305
	<b>2,530,412</b>	<b>324,420</b>	<b>406,898</b>
Investments in consolidated SEs by a subsidiary or consolidated SE			
Tongbao No.1	28,794	5,000	4,799
Jiaxing Baoman Investment Company (L.P.)	11,524	3,360	3,360
Tianlu Properties – Yirun New City Project	72,305	103,292	72,305
	<b>112,623</b>	<b>111,652</b>	<b>80,464</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23. Subsidiaries and consolidated structured entities (continued)

### 23.3 Consolidated structured entities (continued)

As at 31 December 2015, total assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

	Total assets RMB'000	Initial investment RMB'000	Maximum RMB'000
Investments in consolidated SEs by the Company			
Huifu No.1	1,110,479	95,558	170,378
Xianjintianli No.1	837,187	10,000	10,000
Jinrui No.5	92,674	13,633	16,934
Jinrui No.6	265,930	26,637	31,799
Huijin No.27	26,583	3,625	4,537
Yulinglong Shijianqudong	17,111	2,720	4,351
Dingzengbao No.1	232,024	13,560	31,005
Dingzengjingxuan No.1	301	11	20
Dingzengjingxuan No.6	174,396	20,000	23,891
Yuruyi No.1	142,338	16,431	17,085
Yuruyi No.2	267,752	28,598	44,997
Yuruyi No.3	11,515	1,120	1,279
Dongwuhuiying No.106	72,305	103,292	72,305
	<b>3,250,595</b>	<b>335,185</b>	<b>428,581</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 23. Subsidiaries and consolidated structured entities (continued)

#### 23.3 Consolidated structured entities (continued)

	Total assets RMB'000	Initial investment RMB'000	Maximum RMB'000
Investments in consolidated SEs by a subsidiary or consolidated SE			
Dingzengjingxuan No.1	301	142	93
Dingzengjingxuan No.3	207	100	98
Dingzengjingxuan No.5	370	100	98
Dingzengjingxuan No.9	203	100	96
Dingzengjingxuan No.13	204	100	97
Dingzengjingxuan No.15	203	100	96
Dingzengjingxuan No.16	206	100	98
Dingzengjingxuan No.17	206	100	98
Dingzengjingxuan No.23	206	100	96
Dongwuhuiying No.96	299,389	50,000	50,000
Tongbao No.1	30,002	5,000	5,000
Huijin No.30	149,728	10,000	10,056
Guolian Chuangfu No.155	148,000	148,000	148,000
Guomin Collective Trust Scheme of Tianlu Properties – Yirun New City Project	72,305	103,292	72,305
	701,530	317,234	286,231

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 24. Investments in associates

Set out below are the associates of the Group as at 31 December 2016, which, in the opinion of the directors, are material to the Group. Investment in associates as listed below are held directly by the Company; the country of incorporation or registration is also their principal place of business.

### Nature of investment in associates as at 31 December 2016

	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Management method
Zhonghai Fund Management Co.,Ltd	China	33.41%	Note 1	Equity
Wuxi Guolian Lingxiang SME Investment Company (L.P.)	China	33.33%	Note 2	Equity

Note 1: Zhonghai Fund Management Co.,Ltd., held by the Company, provides funds distributon, asset management and other services authorised by the CSRC.

Note 2: Wuxi Guolian Lingxiang SME investment Company (L.P.) is a LLP mainly operating in investment 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 24. Investments in associates (continued)

	2016	2015
	RMB'000	RMB'000
Balance at beginning of the year	203,498	195,401
Additional investment	6,000	10,000
Share of profit	27,539	29,629
Share of other comprehensive (expense) income	(2,717)	467
Disposal of investments	–	(16,861)
Dividend received	(15,064)	(15,138)
Balance at end of the year	219,256	203,498

The results of the Group's principal associates, and their aggregated assets (including goodwill) and liabilities, are as follows:

	Zhonghai Fund Management Co., Ltd.	
	2016	2015
	RMB'000	RMB'000
Carrying amount of total assets	762,049	740,155
Carrying amount of net assets	616,154	567,064
Amounts of the Group's share thereon	199,161	189,450
Profit for the year	91,889	88,545
Other comprehensive income	(8,134)	1,398
Amounts of the Group's share of profit for the year	27,462	29,582
Amounts of the Group's share of other comprehensive income	(2,717)	467

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 24. Investments in associates (continued)

	Wuxi Guolian Lingxiang SME Investment Company (L.P.)	
	2016	2015
	RMB'000	RMB'000
Carry amount of total assets	60,299	42,145
Carrying amount of net assets	60,284	42,142
Amounts of the Group's share thereon	20,095	14,047
Profit for the year	142	141
Other comprehensive income	-	-
Amounts of the Group's share of profit for the year	77	47
Amounts of the Group's share of other comprehensive income	-	-

## 25. Other non-current assets

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Long-term prepaid assets (Note)	20,178	18,990

Note: Long-term prepaid assets

	2016	2015
	RMB'000	RMB'000
Balance at beginning of the year	18,990	23,541
Additions	9,251	6,713
Disposal	(18)	(134)
Amortisation	(8,045)	(11,130)
Balance at end of the year	20,178	18,990



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 26. Available-for sale financial assets

#### Non-current assets

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>At cost</b>		
Investment in unlisted companies	121,914	117,531
<b>At fair value</b>		
Debt Instrument	72,305	72,305
Collective asset management schemes	139,002	58,330
Other equity investment <sup>(1)</sup>	554,197	504,859
	765,504	635,494
	887,418	753,025
<b>Analysed as</b>		
Unlisted	887,418	753,025

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 26. Available-for sale financial assets (continued)

#### Current assets

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>At fair value</b>		
Equity securities <sup>(2)</sup>	549,954	590,835
Debt Instrument	–	148,000
Investment funds	98,530	80,565
Collective asset management schemes	128,117	–
	<b>776,601</b>	819,400
<b>Analysed as</b>		
Listed in Hong Kong	128,479	162,748
Listed outside Hong Kong	432,236	490,455
Unlisted	215,886	166,197
	<b>776,601</b>	819,400

(1) Other equity investment mainly includes wealth management investment and segregated management account. According to the relevant contracts between the securities companies and China Securities Finance Corporation Limited ("CSF"), the Company, along with other securities companies, make investments in a segregated account managed by CSF, and share the risk and reward profiles in proportion. The Company contributed RMB500,000 thousand into the segregated account during 2015. The fair value of the investments as of December 31, 2016 and December 31, 2015 was determined based on the valuation provided by the CSF.

(2) As at 31 December 2016, available-for-sale financial asset for the Group included securities lent to clients of RMB14,399 thousand (31 December 2015: RMB49,609 thousand).

(3) As at 31 December 2016, the fair value of securities of the Group which have been placed as collateral is nil (31 December 2015: nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 27. Deferred income tax assets and liabilities

(1) The net movements on the deferred income tax account are as follows:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Balance at beginning of the year	(30,094)	(115,048)
Income statement charge (Note 17)	34,523	31,992
Tax charge relating to components of other comprehensive income	4,176	52,962
Balance at end of the year	8,605	(30,094)

(2) The gross movements in deferred income tax assets during the year are as follows:

	Impairment losses	Changes in fair value of derivatives	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2015</b>	300	537	2,990	3,827
Credit (charge) to profit or loss	13,800	(537)	10,349	23,612
Tax charge relating to components of other comprehensive income	-	-	-	-
<b>As at 31 December 2015</b>	14,100	-	13,339	27,439
Credit (charge) to profit or loss	20,562	-	7,823	28,385
Tax charge relating to components of other comprehensive income	-	-	-	-
<b>At 31 December 2016</b>	<b>34,662</b>	<b>-</b>	<b>21,162</b>	<b>55,824</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 27. Deferred income tax assets and liabilities (continued)

(3) The gross movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of available-for- sale financial assets RMB'000	Changes in fair value of financial assets at fair value through profit or loss RMB'000	Changes in fair value of derivatives RMB'000	Other RMB'000	Total RMB'000
<b>As at 1 January 2015</b>	77,293	19,042	–	22,540	118,875
Credit (charge) to profit or loss	–	(16,940)	4	8,556	(8,380)
Tax charge relating to components of other comprehensive income	(52,962)	–	–	–	–
<b>As at 31 December 2015</b>	24,331	2,102	4	31,096	57,533
Credit (charge) to profit or loss	–	(1,854)	21	(4,305)	(6,138)
Tax charge relating to components of other comprehensive income	(4,176)	–	–	–	(4,176)
<b>At 31 December 2016</b>	<b>20,155</b>	<b>248</b>	<b>25</b>	<b>26,791</b>	<b>47,219</b>

(4) Net amount of deferred income tax assets and liabilities after offsetting:

	2016/12/31 RMB'000	2015/12/31 RMB'000
Deferred income tax assets	8,605	92
Deferred income tax liabilities	–	30,186

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 28. Refundable deposits

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Deposits to Stock Exchanges		
– Shanghai Stock Exchange	42,205	73,407
– Shenzhen Stock Exchange	35,219	53,852
– China Beijing Equity Exchange	1,172	885
Deposits to futures brokers		
– Guolian Futures Co., Ltd. (“Guolian Futures”)	1,620	–
	<b>80,216</b>	128,144

### 29. Other current assets

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Interest receivable (Note 1)	188,194	147,119
Accounts receivable (Note 2)	48,174	27,130
Prepaid expenses	13,671	4,871
Other receivables (Note 2)	15,744	64,601
Less: Impairment allowance	(748)	(4,375)
	<b>265,035</b>	239,346

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 29. Other current assets (continued)

Note 1: Interest receivable

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Interest receivable from margin financing, securities lending and financial assets held under resale agreements	116,362	75,584
Interest receivable from bonds	70,320	67,942
Interest receivable from deposits	1,512	3,593
	<b>188,194</b>	<b>147,119</b>

Note 2: Account receivables and other receivables

The aging analysis of accounts receivables and other receivables based on the date of rendering services is as follows:

	2016/12/31		2015/12/31	
	Amount	Impairment	Amount	Impairment
		allowance		allowance
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 1 year	45,378	(172)	85,650	(4,082)
1 to 3 years	16,058	(452)	2,287	(114)
Over 3 years	2,482	(124)	3,794	(179)
	<b>63,918</b>	<b>(748)</b>	<b>91,731</b>	<b>(4,375)</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 30. Margin accounts receivable

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Margin accounts receivable	4,366,312	6,103,664
Less: Impairment allowance	(13,099)	(18,311)
	<b>4,353,213</b>	6,085,353

Margin accounts are the funds the Group lends to the customers in margin financing and securities lending business. As at 31 December 2016, impairment allowance amounting to RMB13,099 thousand was provided on a collective basis but no margin accounts receivable is overdue (31 December 2015: RMB18,311 thousand).

Margin accounts receivable as at 31 December 2016 is secured by the customers' securities as collateral with undiscounted market value of approximately RMB13,716,076 thousand (31 December 2015: RMB18,027,976 thousand).

### 31. Financial assets held under resale agreements

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Analysed by asset type:		
– Equity securities	1,067,487	1,344,741
– Debt securities	917,112	204,203
	<b>1,984,599</b>	1,548,944
Less: Impairment allowance	(3,203)	(2,725)
	<b>1,981,396</b>	1,546,219

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 31. Financial assets held under resale agreements (continued)

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Analysed by market:		
– Interbank market	753,712	–
– Shanghai Stock Exchange	300,793	223,016
– Shenzhen Stock Exchange	926,891	1,323,203
	<b>1,981,396</b>	1,546,219

The Group received equity securities and debt securities as collaterals in connection with the purchase of assets under resale agreements. Certain of these collaterals can be resold or re-pledged. As at 31 December 2016, the fair value of the collaterals accepted by the Group that can be resold or re-pledged for financial assets sold under repurchase agreement is RMB173,557 thousand, which have been all resold or re-pledged by the Group. (31 December 2015: nil) As at 31 December 2016, no financial assets held under resale agreements of the Group are overdue (31 December 2015: the same).

### 32. Derivative financial instruments

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Futures contracts	–	–	–	–
Listed options	–	244	57	17
	–	<b>244</b>	57	17



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 32. Derivative financial instruments (continued)

(1) Futures contracts

	31 December 2016		31 December 2015	
	Contractual value	Fair value	Contractual value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
SIF	3,950	36	-	-
Less: Cash paid as settlement	-	(36)	-	-
Net position of SIF contracts	-	-	-	-

The future contracts of the Group 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 31 December 2016 included in "clearing settlement funds" (31 December 2015:same).

(2) Listed options

The listed options of the Group mainly represent ETF options which were traded at Shanghai Stock Exchange. As at 31 December 2016, the intrinsic value of the outstanding ETF options amounted to RMB452 thousand (31 December 2015: RMB67 thousand).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 33. Financial assets at fair value through profit or loss

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Financial assets held for trading</b>		
Debt securities	2,350,006	1,679,583
Equity securities	74,158	155,830
Investment funds	129,190	257,795
	<b>2,553,354</b>	2,093,208
<b>Financial assets designated at fair value through profit or loss</b>		
Debt securities	36,478	307,893
Asset backed securities	50,190	20,000
Equity securities	92,470	172,948
	<b>179,138</b>	500,841
	<b>2,732,492</b>	2,594,049

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 33. Financial assets at fair value through profit or loss (continued)

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Analysed as:</b>		
<b>Financial assets held for trading</b>		
Listed outside Hong Kong	2,553,354	2,093,208
	2,553,354	2,093,208
<b>Analysed as:</b>		
<b>Financial assets designated at fair value through profit or loss</b>		
Listed outside Hong Kong	179,138	480,841
Unlisted	-	20,000
	179,138	500,841
	2,732,492	2,594,049

If a portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Group's investment strategy, and information about the portfolio is reported to the management on that basis, the same basis is adopted for designation. According to this principle, the Group manages certain financial assets at fair value under the established investment strategy and considers the relationship between assets and liabilities, in order to mitigate the market risk, and therefore designates these financial assets at fair value through profit or loss.

As at December 2016, the fair value of securities of the Group which have been placed as collateral was RMB1,369,072 thousand (31 December 2015: RMB695,034 thousand).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 34. Clearing settlement funds

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Clearing settlement funds held for clients	2,889,652	3,452,353
Proprietary clearing settlement funds	406,618	907,377
	<b>3,296,270</b>	4,359,730

### 35. Cash held for brokerage clients

The Group maintains separate banking accounts with banks and authorised institutions for clients' monies arising from the normal course of business. The Group records these monies as cash held for brokerage clients under current assets, and recognise them as due to clients given that they are held liable for any loss or appropriation of these monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions as per CSRC regulations.

### 36. Cash and bank balances

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Cash	-	-
Bank balances	2,464,918	3,960,527
	<b>2,464,918</b>	3,960,527

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 37. 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:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Issued and fully paid ordinary share of RMB1 each		
Domestic shares	1,459,760	1,459,760
H shares	442,640	442,640
	<b>1,902,400</b>	1,902,400
Share Capital (in RMB'000)		
Domestic shares	1,459,760	1,459,760
H shares	442,640	442,640
	<b>1,902,400</b>	1,902,400

On 6 July 2015, the Company completed its initial public offering of 402,400 thousand H shares on the Main Board of Hong Kong Stock Exchange.

The excess of RMB2,042,840 thousand over the par value of RMB402,400 thousand for the 402,400 thousand ordinary shares issued, net of the relevant incremental costs of RMB94,922 thousand directly contributed to the newly issued shares, was credited to "share premium".

According to the relevant PRC requirements, existing shareholders of the state-owned shares of the Company have converted an aggregated of 40,240 thousand shares into H shares on a one-for-one basis. Total amount of RMB253,995 thousand from the proceeds of such shares has been paid to the National Council for Social Security Fund of the PRC.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 38. Share premium and reserves

	Share Premium	Surplus reserve <sup>(1)</sup>	General reserve <sup>(2)</sup>	Transaction risk reserve <sup>(2)</sup>	Share of other comprehensive Income of investments in associates	Available-for- sale financial assets revaluation reserve <sup>(2)</sup>	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2015</b>	135,638	252,272	408,151	370,007	2,099	231,878	1,400,045
Capital contributions received	2,042,840	-	-	-	-	-	2,042,840
Amounts recognized in other comprehensive income	-	-	-	-	466	(158,871)	(158,405)
Appropriation to surplus reserve	-	138,857	-	-	-	-	138,857
Appropriation to general reserve	-	-	138,857	-	-	-	138,857
Appropriation to transaction risk reserve	-	-	-	138,857	-	-	138,857
<b>As at 31 December 2015</b>	<b>2,178,478</b>	<b>391,129</b>	<b>547,008</b>	<b>508,864</b>	<b>2,565</b>	<b>73,007</b>	<b>3,701,051</b>
Capital contributions received	-	-	-	-	-	-	-
Amounts recognized in other comprehensive income	-	-	-	-	(2,717)	(12,531)	(15,248)
Appropriation to surplus reserve	-	54,969	-	-	-	-	54,969
Appropriation to general reserve	-	-	54,969	-	-	-	54,969
Appropriation to transaction risk reserve	-	-	-	54,969	-	-	54,969
<b>As at 31 December 2016</b>	<b>2,178,478</b>	<b>446,098</b>	<b>601,977</b>	<b>563,833</b>	<b>(152)</b>	<b>60,476</b>	<b>3,850,710</b>

<sup>(1)</sup> 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 capitalisation is not less than 25% of the registered capital immediately before capitalisation.

<sup>(2)</sup> General reserve and transaction risk reserve

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007, the Company appropriates 10% of its profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company appropriates 10% from its profit to the transaction risk.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 38. Share premium and reserves (continued)

(9) Available-for-sale financial assets revaluation reserve

Fair value changes of available-for-sale financial assets for other comprehensive income are as below:

	Year ended 31 December 2016		
	Pre-tax amount	Income tax effect	After-tax net amount
	RMB'000	(Note 27) RMB'000	RMB'000
Balance at beginning of year	97,343	(24,336)	73,007
Changes in fair value for available-for-sale financial assets	(4,355)	1,088	(3,267)
Amounts reclassified to profit or loss upon disposal or impairment provision of available-for-sale financial assets	(12,352)	3,088	(9,264)
<b>Balance at end of year</b>	<b>80,636</b>	<b>(20,160)</b>	<b>60,476</b>

	Year ended 31 December 2015		
	Pre-tax amount	Income tax effect	After-tax net amount
	RMB'000	(Note 27) RMB'000	RMB'000
Balance at beginning of year	309,171	(77,293)	231,878
Changes in fair value for available-for-sale financial assets	(12,031)	3,008	(9,023)
Amounts reclassified to profit or loss upon disposal or impairment provision of available-for-sale financial assets	(199,797)	49,949	(149,848)
<b>Balance at end of year</b>	<b>97,343</b>	<b>(24,336)</b>	<b>73,007</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 39. Bonds in issue

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Current</b>		
Subordinated bonds with fixed rate – 2017 <sup>(c)</sup>	1,500,000	–
Subordinated bonds with fixed rate – 2016 <sup>(a)</sup>	–	1,500,000
Interest certificates <sup>(b)</sup>	–	1,000,000
<b>Non-Current</b>		
Subordinated bonds with fixed rate – 2017 <sup>(c)</sup>	–	1,500,000
Subordinated bonds with fixed rate – 2021 <sup>(d)</sup>	1,500,000	–
Income certificates <sup>(e)</sup>	300,000	1,650,000
	<b>3,300,000</b>	<b>5,650,000</b>

<sup>(a)</sup> On 20 January 2015 the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of one year and a fixed coupon rate of 6.00% paid annually.

<sup>(b)</sup> As at 31 December 2015, income certificates were with a maturity of 3 to 9 months and bore interest rates ranging from 4.10% to 4.30% per annum paid at maturity.

<sup>(c)</sup> On 29 October 2014, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of three year and a fixed coupon rate of 6.20% paid annually.

<sup>(d)</sup> On 29 July 2016, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of five year and a fixed coupon rate of 3.89% paid annually.

<sup>(e)</sup> As at 31 December 2016, income certificates were with a maturity of 24 months and bore interest rates ranging from 6.36% to 6.40% per annum paid at maturity. (As at 31 December 2015, income certificates were with a maturity of 18 to 24 months and bore interest rates ranging from 5.90% to 6.50% per annum paid at maturity.)



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 40. Other current liabilities

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Salaries, bonus, allowances and benefits payable (Note 41)	255,261	227,284
Interest payable	74,903	171,473
Accounts payable	24,112	154,591
Other taxes payable	17,077	22,799
Securities investor protection fund	6,928	13,289
Others	58,292	784
	<b>436,573</b>	<b>590,220</b>

### 41. Payroll and welfare

	1 January 2016	Current year charge	Current year payment	31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and bonus	227,163	453,527	(426,529)	254,161
Pension	5	59,983	(59,411)	577
Other social security	50	30,548	(30,088)	510
Other welfare	-	17,195	(17,195)	-
Labour union funds and employee education funds	66	6,536	(6,589)	13
	<b>227,284</b>	<b>567,789</b>	<b>(539,812)</b>	<b>255,261</b>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 42. Financial assets sold under repurchase agreement (continued)

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Analysed by transaction type:		
– Pledged	882,240	427,996

As at 31 December 2016 and 2015, the fair value of the financial assets at fair value through profit or loss that had been placed as financial assets sold under repurchase agreements of the Group were listed as below:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Pledged</b>		
Financial assets at fair value through profit or loss	1,369,072	695,034

### 43. Financial liabilities at fair value through profit or loss

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Interests of other holders of consolidated SEs	1,787,478	2,794,146

### 44. 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 are interest bearing at the prevailing market interest rates. The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

As at 31 December 2016, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB838,017 thousand (31 December 2015: RMB1,300,545 thousand), and are included in the Group's accounts payable to brokerage clients.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 45. 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.

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Bank balances	2,464,918	3,960,527
Proprietary clearing settlement funds	406,618	907,377
Cash equivalents	917,112	-
	<b>3,788,648</b>	<b>4,867,904</b>

## 46. Transferred financial assets

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

### (1) 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 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 believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 46. Transferred financial assets (continued)

### (2) Repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security or rights and interests in a margin loan and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retain substantially all the risks and rewards of these securities and rights and interests in margin loans.

The proceeds from selling such securities are presented as financial assets sold under repurchase agreements. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred securities during the term of the arrangements and transferred rights and interests in margin loans.

The following table analyses the carrying amount of the above mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	2016/12/31		2015/12/31	
	Carrying amount of transferred assets RMB'000	Carrying amount of related liabilities RMB'000	Carrying amount of transferred assets RMB'000	Carrying amount of related liabilities RMB'000
Financial assets at fair value through profit or loss	1,369,072	(882,240)	695,034	(427,996)
Securities lending	14,399	–	49,609	–
	<b>1,383,471</b>	<b>(882,240)</b>	744,643	(427,996)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 47. Commitments and contingent liabilities

### (1) Capital commitments

As at 31 December 2016, the Group was not involved in any material commitments (31 December 2015: same).

### (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:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Within 1 year	41,324	32,910
1 to 3 years	59,560	44,786
Over 3 years	74,292	51,826
	<b>175,176</b>	129,522

### (3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2016, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on its financial position and operating results, should unfavourable rulings have been handed down (31 December 2015: same).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 48. Related party transactions

### 48.1 Transactions and balances with the Company's controlling shareholder – Guolian Group

Wuxi Guolian Development (Group) Co., Ltd. (collectively referred to as “Guolian Group” together with its subsidiaries) is a wholly state-owned company established in the PRC with a registered capital of RMB8,000,000 thousand. As at 31 December 2016 Guolian Group directly held 28.59% 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 Yi Mian Textile Group Co., Ltd. (“Yi Mian Textile”), Wuxi Guolian Environmental Energy Group Co., Ltd. (“Guolian Environmental”) and Wuxi Min Sheng Investment Co., Ltd. (“Min Sheng Investment”).

Guolian Trust is the subsidiary of Guolian Group who directly held 65.85% of the equity interest. As at 31 December 2016, Guolian Trust held 20.51% of the equity interest in the Company.

Wuxi Electric is an indirectly wholly-owned subsidiary of Guolian Group. As at 31 December 2016, Wuxi Electric held 14.03% of the equity interest in the Company.

Yi Mian Textile is a direct wholly-owned subsidiary of Guolian Group. As at 31 December 2016, Yi Mian Textile held 3.83% of the equity interest in the Company.

Guolian Environmental is a direct wholly-owned subsidiary of Guolian Group. As at 31 December 2016, Guolian Environmental held 1.53% of the equity interest in the Company.

Min Sheng Investment is an indirectly wholly-owned subsidiary of Guolian Group. As at 31 December 2016, Min Sheng Investment held 3.86% of the equity interest in the Company.

#### Transactions during the year

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Income from providing securities brokerage services	35	212
Income from providing asset management services	286	219
Income from providing bond underwriting services	15,397	–
Rental expenses	1,457	–
Interest expense of bonds in issue	–	2,358

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 48. Related party transactions (continued)

### 48.1 Transactions and balances with the Company's controlling shareholder – Guolian Group (continued)

#### Balances at the end of the year

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Cash held for brokerage clients	1,363	3,287

In addition to the above related party transactions, the Company provided asset management services to Wuxi Guolian Development (Group) Co., Ltd. amounted to approximately RMB139,550 thousand (31 December 2015: RMB295,500 thousand). For the year ended 31 December 2016, the asset management fee income was RMB286 thousand (31 December 2015: RMB219 thousand).

### 48.2 Other related party transactions and balanced

The below table lists the Group's other significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2016.

Significant related legal entities	The relationship with the Group
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
Wuxi Guolian Property Management Co., Ltd. ("Guolian Property Management")	Controlled by the controlling shareholder of the Company
Guolian Life Insurance Company Limited	Associate invested by the controlling shareholder of the Company
Zhonghai Fund Management Co., Ltd.	Associate invested by the Group



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 48. Related party transactions (continued)

### 48.2 Other related party transactions and balanced (continued)

#### Transactions during the year

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Income from providing securities brokerage services		
– Guolian Trust	3,366	5,663
– Zhonghai Fund Management Co., Ltd	3,537	5,469
– Guolian Futures	592	1,904
– Others	484	581
Income from providing fund distribution services		
– Zhonghai Fund Management Co., Ltd.	572	224
Income from providing asset management services		
– Others	403	1,772
Rental income		
– Guolian Life Insurance Company Limited	4,236	3,192
– Guolian Futures	945	637
– Guolian Property Management	30	64
Rental expense		
– Guolian Xincheng	11,448	8,689
– Others	878	633
Income from providing financial advisory services		
– Guolian Futures	300	348
– Others	142	–
Expense for receiving services		
– Guolian Property Management	2,155	2,747
– Guolian Futures	972	24
Interest expense of borrowings		
– Others	–	136

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 48. Related party transactions (continued)

### 48.2 Other related party transactions and balanced (continued)

Balances at the end of the year

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Accounts payable		
– Guolian Futures	80	–
– Guolian Life Insurance Company Limited	50	–
Clearing settlement funds		
– Guolian Futures	13,342	13,085
Refundable deposits		
– Guolian Futures	1,620	–
Cash held for brokerage clients		
– Others	1,027	520

In addition to the above related party transactions, the Company provided asset management services to other related parties. As at 31 December 2016, the assets under investment management for other related party amounted to approximately RMB194,088 thousand (31 December 2015: RMB189,512 thousand). For the year ended 31 December 2016, the asset management fee income was RMB403 thousand (2015: RMB1,772 thousand).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 48. Related party transactions (continued)

### 48.3 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.

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Short term employee benefits	6,751	11,469
Post-employment benefits	761	1,051
	<b>7,512</b>	<b>12,520</b>

## 49. Financial risk management

### 49.1 Summary

The Group'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, so as to maximise the shareholders' value. The Group's risk management strategy is to identify and analyse a variety of risks to which the Group 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 are exposed to mainly include: credit risk, market risk and liquidity risk. The Group has 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.1 Summary (continued)

#### **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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 49. Financial risk management (continued)

#### 49.1 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.1 Summary (continued)

#### **Level 3: Compliance and Risk Management Department and Internal Audit Department (continued)**

Internal Audit Department has overall responsibility for the internal audit, including organising comprehensive audits across the Company, monitoring the implementation of and compliance with internal control rules and procedures, minimising 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, 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 adopts the above risk management framework and continuously improve their risk control to ensure that the risks are measurable and controlled within acceptable limits.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 49. Financial risk management (continued)

#### 49.2 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'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'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 supervises finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivable are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance. As of 31 December 2016, the Group's collateral value is sufficient to mitigate the credit risk in margin financing.

In terms of the Group's investment in debt instruments, the Group assesses the borrowers' business performance, repayment ability, and industrial outlook before making investment decisions, and renews the credit status of borrowers at least annually.

The Group's credit risk also arises from the securities. If a customer fails to deposit sufficient trading funds, the Group may use their own funds to complete the settlement. The Group requires 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.2 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 is as follows:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Refundable deposits	80,216	128,144
Other current assets	250,573	234,475
Margin accounts receivable	4,353,213	6,085,353
Available-for sale financial assets	72,305	220,305
Financial assets held under resale agreements	1,981,396	1,546,219
Financial assets at fair value through profit or loss		
– Debt securities	2,386,484	1,987,475
– Asset Backed Securities	50,190	20,000
Clearing settlement funds	3,296,270	4,359,730
Cash held for brokerage clients	6,773,686	10,332,986
Bank balances	2,464,918	3,960,527
	<b>21,709,251</b>	<b>28,875,214</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.2 Credit risk (continued)

#### (2) Rating distribution of debit 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.

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000
<b>31 December 2016</b>		
AAA	86,396	—
AA- to AA+	1,643,257	—
A- to A+	175,066	—
Unrated	531,955	72,305
	<b>2,436,674</b>	<b>72,305</b>
<b>31 December 2015</b>		
AAA	64,880	—
AA- to AA+	1,743,580	—
A- to A+	—	—
Unrated	199,016	220,305
	<b>2,007,476</b>	<b>220,305</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.2 Credit risk (continued)

#### (3) Allowance analysis for financial assets

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Available-for-sale financial assets – Debt Instrument	<b>103,293</b>	251,293
Individually assessed impairment allowance	<b>(30,988)</b>	(30,988)
	<b>72,305</b>	220,305
Margin accounts receivable	<b>4,366,312</b>	6,103,664
Collectively assessed impairment allowance	<b>(13,099)</b>	(18,311)
	<b>4,353,213</b>	6,085,353
Financial assets held under resale agreement	<b>1,984,599</b>	1,548,944
Collectively assessed impairment allowance	<b>(3,203)</b>	(2,725)
	<b>1,981,396</b>	1,546,219
Other current assets	<b>252,113</b>	238,850
Collectively assessed impairment allowance	<b>(748)</b>	(4,375)
	<b>251,365</b>	234,475



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 49. Financial risk management (continued)

#### 49.3 Market risk

##### Summary

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to interest rate risk, currency risk or price risk.

##### 49.3.1 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 utilises 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 mainly comprise corporate bonds, and the Group mitigates the interest rate risk through optimising 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.3 Market risk (continued)

#### 49.3.1 Interest rate risk (continued)

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As at 31 December 2016	Within 3 month RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Above 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
<b>Financial assets</b>						
Refundable deposits	-	-	-	-	80,216	80,216
Other current assets	-	-	-	-	250,574	250,574
Margin accounts receivable	1,556,049	2,797,164	-	-	-	4,353,213
Available-for-sale financial assets	-	-	72,305	-	1,591,714	1,664,019
Financial assets held under resale agreements	942,277	607,019	432,100	-	-	1,981,396
Financial assets at fair value through profit or loss	29,984	260,948	2,070,249	75,493	295,818	2,732,492
Derivative financial assets	-	-	-	-	-	-
Clearing settlement funds	3,296,270	-	-	-	-	3,296,270
Cash held for brokerage clients	6,773,686	-	-	-	-	6,773,686
Cash and bank balances	1,814,918	390,000	260,000	-	-	2,464,918
	14,413,184	4,055,131	2,834,654	75,493	2,218,322	23,596,784
<b>Financial liabilities</b>						
Bonds in issue	-	(1,800,000)	(1,500,000)	-	-	(3,300,000)
Other current liabilities	-	-	-	-	(158,999)	(158,999)
Financial assets sold under repurchase agreement	(882,240)	-	-	-	-	(882,240)
Financial liabilities at fair value through profit or loss	-	-	-	-	(1,787,478)	(1,787,478)
Derivative financial liabilities	-	-	-	-	(244)	(244)
Accounts payable to brokerage clients	(9,626,064)	-	-	-	-	(9,626,064)
	(10,508,304)	(1,800,000)	(1,500,000)	-	(1,946,721)	(15,755,025)
Interest rate sensitivity gap	3,904,880	2,255,131	1,334,654	75,493	271,601	7,841,759

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.3 Market risk (continued)

#### 49.3.1 Interest rate risk (continued)

As at 31 December 2015	1-3 month RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Above 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
<b>Financial assets</b>						
Refundable deposits	128,144	-	-	-	-	128,144
Other current assets	-	-	-	-	239,346	239,346
Margin accounts receivable	728,305	5,357,048	-	-	-	6,085,353
Available-for-sale financial assets	-	148,000	72,305	-	1,352,120	1,572,425
Financial assets held under resale agreements	302,216	1,044,168	199,835	-	-	1,546,219
Financial assets at fair value through profit or loss	-	140,631	1,166,259	700,585	586,574	2,594,049
Derivative financial assets	-	-	-	-	57	57
Clearing settlement funds	4,359,730	-	-	-	-	4,359,730
Cash held for brokerage clients	10,332,986	-	-	-	-	10,332,986
Cash and bank balances	3,960,527	-	-	-	-	3,960,527
	19,811,908	6,689,847	1,438,399	700,585	2,178,097	30,818,836
<b>Financial liabilities</b>						
Bonds in issue	(1,700,000)	(2,150,000)	(1,800,000)	-	-	(5,650,000)
Other current liabilities	-	-	-	-	(590,220)	(590,220)
Financial assets sold under repurchase agreement	(427,996)	-	-	-	-	(427,996)
Financial liabilities at fair value through profit or loss	-	-	-	-	(2,794,146)	(2,794,146)
Derivative financial liabilities	-	-	-	-	(17)	(17)
Accounts payable to brokerage clients	(13,557,301)	-	-	-	-	(13,557,301)
	(15,685,297)	(2,150,000)	(1,800,000)	-	(3,384,383)	(23,019,680)
Interest rate sensitivity gap	4,126,611	4,539,847	(361,601)	700,585	(1,206,286)	7,799,156

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.3 Market risk (continued)

#### 49.3.1 Interest rate risk (continued)

##### *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 the 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 behaviour, 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.

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Net profit and equity</b>		
Increase by 25 bps	<b>10,575</b>	13,206
Decrease by 25 bps	<b>(10,521)</b>	(13,121)



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 49. Financial risk management (continued)

#### 49.3 Market risk (continued)

##### 49.3.1 Interest rate risk (continued)

###### *Sensitivity analysis (continued)*

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 behaviours not considered;
- interest rate of demand depots moving in the same direction and extend; and
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

##### 49.3.2 Currency risk

The Group operates principally in the PRC. The majority of recognised assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.3 Market risk (continued)

#### 49.3.2 Currency risk (continued)

As at 31 December 2016, other than deposits with banks denominated in US dollar and Hong Kong dollar totalling RMB1,032,257 thousand (31 December 2015: RMB1,183,275 thousand), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should foreign currencies had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB10,323 thousand lower/higher for the year ended 31 December 2016 (2015: RMB11,833 thousand).

#### 49.3.3 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, exchangeable bonds, derivatives, collective asset management schemes and investment in a segregated managed account whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The Group is subject to relatively high market risk due to the high volatility of the domestic stock markets.

The Group's 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, exchangeable bonds, derivatives, collective asset management schemes and investment in a segregated managed account by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit after income tax and shareholders equity, while a negative result indicates otherwise.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.3 Market risk (continued)

#### 49.3.3 Price risk (continued)

##### *Sensitivity analysis (continued)*

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Profit after income tax</b>		
Increase by 10%	23,169	43,996
Decrease by 10%	(23,169)	(43,996)

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Equity</b>		
Increase by 10%	119,379	136,590
Decrease by 10%	(119,379)	(136,590)

### 49.4 Liquidity risk

Liquidity risk is the risk that the Group 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.4 Liquidity risk (continued)

The Group manages and controls its funds in a centralised 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 recognise, measure, monitor and control liquidity risk and ensure that its liquidity needs can be met timely with a reasonable cost. The Group's financial department organises 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 analysing 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.

The Group invests surplus cash in negotiable bank deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. As at 31 December 2016 the Group held cash and cash equivalents of approximately RMB3,788,648 thousand (31 December 2015: RMB4,867,904 thousand) that is expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds financial assets held for trading of RMB2,553,354 thousand as at 31 December 2016 (31 December 2015: RMB2,093,208 thousand), which could be readily realised to provide a further source of cash if the need arose.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.4 Liquidity risk (continued)

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities at the end of the 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 the reporting period.

As at 31 December 2016	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Overdue/ Undated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-derivative financial liabilities</b>								
Other current liabilities	12,903	45,113	8,360	7,362	2,893	7,265	-	83,896
Bonds in issue	-	-	-	1,970,510	1,733,400	-	-	3,703,910
Financial assets sold under repurchase agreement	-	843,653	39,874	-	-	-	-	883,527
Financial liabilities at fair value through profit or losses	440,701	-	-	686,227	32,016	-	628,534	1,787,478
Accounts payable to brokerage clients	9,626,064	-	-	-	-	-	-	9,626,064
	<b>10,079,668</b>	<b>888,766</b>	<b>48,234</b>	<b>2,664,099</b>	<b>1,768,309</b>	<b>7,265</b>	<b>628,534</b>	<b>16,084,875</b>
<b>Derivative financial instruments settled on a gross basis</b>								
Total inflow	-	-	-	-	-	-	-	-
Total outflow	-	244	-	-	-	-	-	244
	<b>-</b>	<b>244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>244</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 49. Financial risk management (continued)

### 49.4 Liquidity risk (continued)

As at 31 December 2015	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Overdue/ Undated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-derivative financial liabilities</b>								
Other current liabilities	106,899	195,570	131,525	99,668	56,558	-	-	590,220
Bonds in issue	-	1,504,932	201,865	2,242,703	1,995,804	-	-	5,945,304
Financial assets sold under repurchase agreement	-	446,335	-	-	-	-	-	446,335
Financial liabilities at fair value through profit or losses	822,053	-	1,068,600	471,739	431,754	-	-	2,794,146
Accounts payable to brokerage clients	13,557,301	-	-	-	-	-	-	13,557,301
	14,486,253	2,146,837	1,401,990	2,814,110	2,484,116	-	-	23,333,306
<b>Derivative financial instruments settled on a gross basis</b>								
Total inflow	-	57	-	-	-	-	-	57
Total outflow	-	17	-	-	-	-	-	17
	-	40	-	-	-	-	-	40

### 49.5 Capital management

The Group's objectives of capital management are:

- To safeguard the Group'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 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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 49. Financial risk management (continued)

#### 49.5 Capital management (continued)

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (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 core net capital divided by total assets shall be no less than 8%;
- The ratio of quality current assets divided by net cash used in next thirty days shall be no less than 100%; and
- The ratio of stable funding available divided by stable funding required shall be no less than 100%.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

### 50. 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 participations at the measurement date.

#### 50.1 Financial instruments not measured at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statement of consolidated financial position approximate their fair values.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.1 Financial instruments not measured at fair value (continued)

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.

### 50.2 Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – 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 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016 and 2015.

Financial assets/liabilities	As at 31 December 2016	As at 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
<b>Financial assets at fair value through profit or loss</b>				
- Listed debt securities	2,350,006	1,679,583	Level 2	Discounted future cash flows estimated based on contractual amounts and coupon rates at rates that reflects the credit risk of counterparty.
- Unlisted debt securities	36,478	307,893	Level 3	Discounted future cash flows estimated based on expected recoverable amounts at rates that reflect management's best estimation of the expected risk level.
- Asset backed securities	50,190	20,000	Level 3	Discounted future cash flow estimated based on expected recoverable amounts at rates that reflect management's best estimation of the expected risk level.
- Equity securities and funds traded on stock exchanges	203,348	413,625	Level 1	Quoted bid price in an active market
- Equity securities traded on stock exchanges with lock-up periods	92,470	172,948	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.
<b>Derivative financial instruments</b>				
- SIF (Note 1)	36	-	Level 1	Quoted bid prices in an active market
- Listed options assets	-	57	Level 1	Quoted bid prices in an active market
- Listed options liabilities	(244)	(17)	Level 1	Quoted bid prices in an active market

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

Financial assets/liabilities	As at 31 December 2016	As at 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
<b>Available-for-sale financial assets</b>				
– Equity securities traded on stock exchanges	506,004	547,114	Level 1	Quoted bid prices in an active market
– Equity securities listed on National Equities Exchange and Quotation	43,950	43,721	Level 2	Recent transaction prices
– Investment funds	54,711	80,565	Level 1	Quoted bid prices in an active market.
– Closed-end investment funds and other equity investment	598,016	504,859	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio
– Collective asset management schemes	267,119	58,330	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability
– Debt instrument	72,305	220,305	Level 3	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.
Financial liabilities at fair value through profit or loss	(1,787,478)	(2,794,146)	Level 3	Calculated based on the fair value of the underlying investments with fair value hierarchy categorized as level 3 for which an adjustment or discount for lack of marketability is applied



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 50. Fair value of financial assets and liabilities (continued)

#### 50.2 Financial instruments measured at fair value (continued)

As at 31 December 2016	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Equity securities	74,158	–	92,470	166,628
– Debt securities	–	2,350,006	36,478	2,386,484
– Investment funds	129,190	–	–	129,190
– Asset Backed Securities	–	–	50,190	50,190
Available-for-sale financial assets				
– Equity securities	506,004	43,950	–	549,954
– Investment funds	54,711	43,819	–	98,530
– Collective asset management schemes	–	–	267,119	267,119
– Other equity investment	–	554,197	–	554,197
– Debt instrument	–	–	72,305	72,305
	764,063	2,991,972	518,562	4,274,597
Liabilities				
Derivative financial liabilities	(244)	–	–	(244)
Financial liabilities at fair value through profit or loss	–	–	(1,787,478)	(1,787,478)
	(244)	–	(1,787,478)	(1,787,722)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

As at 31 December 2015	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Equity securities	155,830	–	172,948	328,778
– Debt securities	–	1,679,583	307,893	1,987,476
– Investment funds	257,795	–	–	257,795
– Asset Backed Securities	–	–	20,000	20,000
Derivative financial assets				
– Listed options	57	–	–	57
Available-for-sale financial assets				
– Equity securities	547,114	43,721	–	590,835
– Investment funds	80,565	–	–	80,565
– Collective asset management schemes	–	–	58,330	58,330
– Debt instrument	–	–	220,305	220,305
– Other equity investment	–	504,859	–	504,859
	1,041,361	2,228,163	779,476	4,031,000
Liabilities				
Derivative financial liabilities	(17)	–	–	(17)
Financial liabilities at fair value through profit or loss	–	–	(2,794,146)	(2,794,146)
	(17)	–	(2,794,146)	(2,794,163)



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 50. Fair value of financial assets and liabilities (continued)

#### 50.2 Financial instruments measured at fair value (continued)

For the years ended 31 December 2016 and 2015, there were no transfers between level 1 and level 2 of the fair value hierarchy of the Group.

**(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 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 31 December 2016 and 2015, the Group'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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

#### (3) Valuation methods for specific investments (continued)

- (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.
- (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

#### (4) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015.

	Available-for-sale financial assets- collective asset management scheme RMB'000	Available-for-sale financial assets – Debt instrument RMB'000	Financial assets at fair value through profit or loss – Debt securities RMB'000	Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods RMB'000	Financial assets at fair value through profit or loss – Asset Backed Securities RMB'000
<b>Balance at 1 January 2016</b>	58,330	220,305	307,893	172,948	20,000
Fair value change	1,610	-	2,044	(25,942)	190
Increase	221,580	-	-	66,527	50,000
Decrease	(14,401)	(148,000)	(273,459)	(121,063)	(20,000)
<b>Balance at 31 December 2016</b>	267,119	72,305	36,478	92,470	50,190
Total gains or losses for the year include in profit or loss for assets held at end of year, under "Net investment gains"	7,823	15,066	1,293	(33,470)	190
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	-	-	751	(7,528)	190

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

#### (4) Financial instruments in level 3 (continued)

	Available-for-Sale financial Assets-Collective asset management scheme	Available-for-sale financial assets – Trust schemes	Available-for-sale financial assets – Debt instrument	Available-for-sale financial assets – Equity securities traded on stock exchanges with lock-up periods	Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods	Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods	Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2015</b>	52,803	13,000	-	52,567	392,671	51,945	-
Fair value change	15,483	-	-	1,708	2,893	(25,942)	-
Increase	4,292	-	220,305	-	237,455	196,435	20,000
Decrease	(14,248)	(13,000)	-	(54,275)	(325,126)	(49,490)	-
<b>Balance at 31 December 2015</b>	58,330	-	220,305	-	307,893	172,948	20,000
Total gains or losses for the year include in profit or loss for assets held at end of year, under "Net investment gains"	566	61	-	1,708	8,303	17,947	-
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	-	-	-	-	-	17,947	-

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

#### (4) Financial instruments in level 3 (continued)

	Financial liabilities at fair value through profit or loss RMB'000
<b>Balance at 1 January 2016</b>	<b>2,794,146</b>
Consolidation of SEs	198,142
Losses recognized in profit or loss	(39,309)
Purchase	103,918
Settlements	(1,269,419)
<b>Balance at 31 December 2016</b>	<b>1,787,478</b>
Total gains or losses for the year included in profit or loss for liabilities held at the end of year, under "Net investment losses"	<b>(43,298)</b>
Change in unrealized gains or losses for the year include in profit or loss for liabilities held at the end of the year	<b>80,417</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

#### (4) Financial instruments in level 3 (continued)

	Financial liabilities at fair value through profit or loss RMB'000
Balance at 1 January 2015	2,495,469
Consolidation of SEs	388,510
Losses recognized in profit or loss	(311,986)
Purchase	442,758
Settlements	(220,605)
<b>Balance at 31 December 2015</b>	<b>2,794,146</b>
Total gains or losses for the year included in profit or loss for liabilities held at the end of year, under "Net investment losses"	(311,986)
Change in unrealized gains or losses for the year include in profit or loss for liabilities held at the end of the year	(59,362)



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 50. Fair value of financial assets and liabilities (continued)

### 50.2 Financial instruments measured at fair value (continued)

#### (4) Financial instruments in level 3 (continued)

Financial assets/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 & ABS	Level 3	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flow.</li> <li>Discount rates that correspond to the expected risk level.</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flow, the higher the fair value.</li> <li>The lower the discount rate, the higher the fair value</li> </ul>
Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods	Level 3	<ul style="list-style-type: none"> <li>Calculated based on the fair value of the listed shares with lock up periods which is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.</li> </ul>	<ul style="list-style-type: none"> <li>Discount rates that correspond to lack of marketability.</li> </ul>	<ul style="list-style-type: none"> <li>The lower the discount rate, the higher the fair value</li> </ul>
Financial liabilities designated at fair value through profit or loss	Level 3	<ul style="list-style-type: none"> <li>Calculated based on the fair value of the underlying investments with fair value hierarchy categorized as level 3 for which an adjustment or discount for lack of marketability is applied.</li> </ul>	<ul style="list-style-type: none"> <li>Expected fair value of the underlying investments.</li> <li>Discount rates that correspond to lack of marketability.</li> </ul>	<ul style="list-style-type: none"> <li>The higher the fair value of the underlying investments, the higher the fair value.</li> </ul>
Available-for-sale financial assets – Debt instrument	Level 3	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flow.</li> <li>Discount rates that correspond to the expected risk level.</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flow, the higher the fair value.</li> <li>The lower the discount rate, the higher the fair value</li> </ul>
Available-for-sale financial assets – Collective asset management scheme	Level 3	<ul style="list-style-type: none"> <li>Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.</li> </ul>	<ul style="list-style-type: none"> <li>Expected fair value of the underlying investments.</li> <li>Discount rates that correspond to lack of marketability.</li> </ul>	<ul style="list-style-type: none"> <li>The higher the fair value of the underlying investments, the higher the fair value.</li> <li>The lower the discount rate, the higher the fair value</li> </ul>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 51. Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting agreements:

As at 31 December 2016					
	Gross amounts Of recognised financial assets	Gross amounts of recognised financial liabilities	Net amounts of financial assets/ (liabilities)	Cash received as settlement	Net amount of Financial assets/ (liabilities) presented in the statements of financial position
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	36	-	36	(36)	-

As at 31 December 2015					
	Gross amounts Of recognised financial assets	Gross amounts of recognised financial liabilities	Net amounts of financial assets/ (liabilities)	Cash received as settlement	Net amount of Financial assets/ (liabilities) presented in the statements of financial position
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	-	-	-	-	-

The Group has entered into master netting arrangements with counterparties for the future contracts 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 52. Unconsolidated structured entities

Unconsolidated structured entities of the Group mainly include collective and targeted asset management schemes managed by the Group, trust schemes and investment funds which the Group invests in but does not act as manager.

Except for the structured entities that the Group has consolidated as detailed in Note 23, in the opinion of the directors of the Company, the variable returns the Group exposed to over 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 RMB21,146,979 thousand as at 31 December 2016 (31 December 2015: RMB17,973,626 thousand).

As at 31 December 2016 and 2015, 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:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Available-for-sale financial assets	827,876	643,753
Financial assets at fair value through profit or loss	179,191	277,795
	<b>1,007,067</b>	921,548

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 52. Unconsolidated structured entities (continued)

For the years ended 31 December 2016 and 2015, the income from these unconsolidated structured entities held by the Group was as follows:

	2016/12/31	2015/12/31
	RMB'000	RMB'000
Net investment gains	15,179	25,853
Fee and commission income	4,940	5,258
	<b>20,119</b>	<b>31,111</b>

For the year ended 31 December 2016, the Group did not provide and had no plan to provide financial support to these unconsolidated structured entities (2015: same).

### 53. Subsequent events

#### Profit distribution resolution

On 15 March 2017, the board of directors of the Company proposed a profit distribution resolution, Cash dividend of RMB1.4 per 10 shares (inclusive of tax) was distributed to all holders of domestic shares and H Shares whose names appear on the register of members of the Company on the record date. The total cash dividends to be distributed would be RMB266,336 thousand on the basis of a total share capital of 1,902,400 thousand domestic shares and H Shares in issue. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Other than those disclosed above, the Group had no material events for disclosure subsequent to 31 December 2016 and up to the date of approval of these consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 54. Statement of financial position and reserve movement of the Company

#### Statement of financial position of the Company

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Assets</b>		
Property and equipment	103,837	101,317
Goodwill	—	—
Intangible assets	27,365	28,260
Investments in subsidiaries	733,600	733,600
Investments in consolidated structured entities	221,129	231,892
Investment in associates	199,161	189,450
Other non-current assets	17,309	18,236
Available-for-sale financial investments	689,430	709,216
Deferred income tax assets	35,629	910
Refundable deposits	79,367	127,450
<b>Total non-current assets</b>	<b>2,106,827</b>	<b>2,140,331</b>
<b>Current assets</b>		
Other current assets	176,854	168,490
Available-for-sale financial assets	684,630	671,400
Margin accounts receivable	4,353,213	6,085,353
Financial assets held under resale agreements	1,662,284	905,526
Derivative financial assets	—	57
Financial assets at fair value through profit or loss	311,024	157,853
Clearing settlement funds	3,274,277	4,333,652
Cash held for brokerage clients	6,773,686	9,624,537
Cash and bank balances	1,317,098	3,177,139
<b>Total current assets</b>	<b>18,553,066</b>	<b>25,124,007</b>
<b>Total assets</b>	<b>20,659,893</b>	<b>27,264,338</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 54. Statement of financial position and reserve movement of the Company (continued)

### Statement of financial position of the Company (continued)

	2016/12/31	2015/12/31
	RMB'000	RMB'000
<b>Equity and liabilities</b>		
Share capital	1,902,400	1,902,400
Share premium	2,177,342	2,177,342
Reserves	1,665,891	1,522,592
Retained profits	1,596,725	1,972,904
<b>Total equity</b>	<b>7,342,358</b>	<b>7,575,238</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Bond in issue	1,489,795	1,800,000
Other non-current liabilities	–	2,129
<b>Total non-current liabilities</b>	<b>1,489,795</b>	<b>1,802,129</b>
<b>Current liabilities</b>		
Other current liabilities	285,866	399,481
Current income tax liabilities	53,566	80,172
Bonds in issue	1,800,000	3,850,000
Derivative financial liabilities	244	17
Financial assets sold under repurchase agreements	62,000	–
Accounts payable to brokerage clients	9,626,064	13,557,301
<b>Total current liabilities</b>	<b>11,827,740</b>	<b>17,886,971</b>
<b>Total liabilities</b>	<b>13,317,535</b>	<b>19,689,100</b>
<b>Total equity and liabilities</b>	<b>20,659,893</b>	<b>27,264,338</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 54. Statement of financial position and reserve movement of the Company (continued)

#### Reserve movement of the Company

	Retained RMB'000	Reserve earnings RMB'000
<b>Balance at 1 January 2015</b>	<b>1,264,269</b>	1,105,908
Profit for the year	–	1,388,567
Other comprehensive income for the year	<b>(158,248)</b>	–
<b>Total comprehensive income</b>	<b>(158,248)</b>	1,388,567
Dividends recognized as distribution	–	(105,000)
Appropriation to reserves	<b>416,571</b>	(416,571)
<b>Balance at 31 December 2015 and Balance at 1 January 2016</b>	<b>1,522,592</b>	1,972,904
Profit for the year	–	549,687
Other comprehensive income for the year	<b>(21,606)</b>	–
<b>Total comprehensive income</b>	<b>(21,606)</b>	549,687
Dividends recognized as distribution	–	(760,960)
Appropriation to reserves	<b>164,906</b>	(164,906)
<b>Balance at 31 December 2016</b>	<b>1,665,892</b>	1,596,725

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 55. Benefits and interests of directors

### 55.1 Directors' and supervisors' emoluments

The remuneration of every director and supervisor is set out below:

Name	Year ended 31 December 2016						
	Remuneration	Salaries	Housing allowance	Pension	Other welfares	Annual bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive Directors</b>							
Yao Zhiyong	-	600	25	37	23	332	1,017
Peng Yanbao (President) (appointed on 16 June 2016)	-	578	25	37	22	308	970
Lei Jianhui (retired on 15 March 2016)	-	75	6	9	8	-	98
<b>Non-executive Directors</b>							
Hua Weirong	-	-	-	-	-	-	-
Liu Hailin	-	-	-	-	-	-	-
Jiang Zhijian (retired on 16 June 2016)	-	-	-	-	-	-	-
Zhou Weiping (appointed on 16 June 2016)	-	-	-	-	-	-	-
Wang Wei	120	-	-	-	-	-	120
Chen Qingyuan	120	-	-	-	-	-	120
Li Baixi (appointed on 5 July 2016)	60	-	-	-	-	-	60
Zhang Weigang (appointed on 14 February 2016)	-	-	-	-	-	-	-
Fan Renhe (retired on 5 July 2016)	60	-	-	-	-	-	60
<b>Supervisors</b>							
Shan Xudong (retired on 16 June 2016)	-	72	11	14	-	-	97
Yin Zhuowei (retired on 16 June 2016)	-	105	12	19	14	-	150
Shen Ying (appointed on 16 June 2016)	-	60	13	19	-	150	242
Yu Lei (appointed on 16 June 2016)	-	72	13	19	4	212	320
Chen Xingjun (appointed on 28 June 2016 and retired on 19 December 2016)	-	-	-	-	-	-	-
Yang Xiaojun (retired on 30 August 2016)	-	-	-	-	-	-	-
Jin Guoxiang (retired on 16 June 2016)	-	-	-	-	-	-	-
Zhou Weixing	-	-	-	-	-	-	-
	360	1,562	105	154	71	1,002	3,254



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 55. Benefits and interests of directors (continued)

### 55.1 Directors' and supervisors' emoluments (continued)

Name	Year ended 31 December 2015						
	Remuneration RMB'000	Salaries RMB'000	Housing allowance RMB'000	Pension RMB'000	Other welfares RMB'000	Annual bonus RMB'000	Total RMB'000
<b>Executive Directors</b>							
Yao Zhiyong	-	793	46	145	25	1,040	2,049
Lei Jianhui (President)	-	763	46	149	25	970	1,953
<b>Non-executive Directors</b>							
Zhu Zhenwu (retired on 20 March 2015)	20	-	-	-	-	-	20
Wang Wei (appointed on 19 March 2015)	100	-	-	-	-	-	100
Chen Qingyuan	100	-	-	-	-	-	100
Hua Weirong	-	-	-	-	-	-	-
Jiang Zhijian	-	-	-	-	-	-	-
Liu Hailin	-	-	-	-	-	-	-
Liu Gaoyuan (retired on 2 December 2015)	-	-	-	-	-	-	-
Fan Renhe (appointed on 20 March 2015)	80	-	-	-	-	-	80
<b>Supervisors</b>							
Yin Zhuowei	-	360	46	109	25	470	1,010
Shan Xudong	-	161	43	73	25	120	422
Yang Xiaojun	-	-	-	-	-	-	-
Jin Guoxiang	-	-	-	-	-	-	-
Zhou Weixing	-	-	-	-	-	-	-
	300	2,077	181	476	100	2,600	5,734

### 55.2 Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.