

# 恒投证券

HENGTOU SECURITIES

(a joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name "恒泰证券股份有限公司" and carrying on business in Hong Kong as "恒投證券" (in Chinese) and "HENGTOU SECURITIES" (in English))

**Stock Code: 1476**

# 2016

ANNUAL REPORT

# Content

<b>IMPORTANT NOTICE</b>	2
<b>CHAIRMAN'S STATEMENT</b>	3
<b>SECTION 1 DEFINITIONS</b>	4
<b>SECTION 2 MATERIAL RISKS</b>	9
<b>SECTION 3 COMPANY PROFILE</b>	10
<b>SECTION 4 SUMMARY OF ACCOUNTING AND BUSINESS DATA</b>	23
<b>SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS</b>	30
<b>SECTION 6 REPORT OF THE BOARD OF DIRECTORS</b>	92
<b>SECTION 7 OTHER MATERIAL PARTICULARS</b>	105
<b>SECTION 8 EQUITY (CAPITAL) CHANGES AND SUBSTANTIAL SHAREHOLDERS</b>	116
<b>SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES</b>	121
<b>SECTION 10 CORPORATE GOVERNANCE REPORT</b>	140
<b>APPENDIX PARTICULARS OF SECURITIES BRANCHES</b>	173
<b>INDEPENDENT AUDITOR'S REPORT</b>	189
<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS</b>	195
<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>	196
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	197
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	199
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	200
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	202

# Important Notice

The Board, Supervisory Committee, Directors, Supervisors and senior management of the Company undertake that the content of this report is true, accurate, complete and without any false record, misrepresentation or material omission and are severally and jointly liable therefor.

This report has been considered and approved at the sixth meeting of the third session of the Board and the fifth meeting of the third session of the Supervisory Committee where all the Directors and Supervisors were present, respectively. No Directors, Supervisors or senior management of the Company declared that they could not guarantee or had any objection to the truthfulness, accuracy and completeness of this report.

The financial report for 2016 prepared by the Company in accordance with the International Financial Reporting Standards and China's Accounting Standard for Business Enterprises, has been audited by RSM Hong Kong and Ruihua Certified Public Accountants LLP respectively, each of whom had issued a standard unqualified audit report. All amounts set out in this report are stated in RMB unless otherwise stated.

Mr. Pang Jiemin (the chairman of the Board), Mr. Niu Zhuang (the president), Ms. Yang Shufei (the chief financial officer) and Mr. Yang Liyang (the finance manager) declared that, they undertake the financial statements in this report are true, accurate and complete.

The forward-looking statements including future plans and development strategies involved in this report do not constitute the Company's substantive commitment to investors. The investors are advised to pay attention to investment risks.

# Chairman's Statement

In 2016, China's economy withstood the turbulence in financial market and the slowdown in real economy at the beginning of the year, and began to show signs of stabilisation. Due to the combined effects of RMB depreciation, bond market, currency risks and other factors, China's A-share market as a whole went through a roller-coaster ride and fluctuated within a narrow range after a dramatic fall during the year. In terms of the regulatory environment of securities industry, the regulatory authorities performed strict and comprehensive supervision in accordance with relevant laws, which standardised the business regimes of securities companies and strengthened the compliant operation of securities companies.

In 2016, the Company was confronted with serious challenges in operation as the securities industry as a whole struggled with declining operating performance due to unfavourable market conditions. In response, the Company continued to optimise its business distribution and structure, promoted the transformation and development of its businesses, and enhanced back-office support and service to facilitate its businesses. Thanks to these efforts, the market rankings of the Company's businesses were improved to various extent. In addition, the Company adopted strict compliance and risk control, thus ensuring smooth and orderly operation of its businesses. As such, the Company was able to maintain its stable development momentum in terms of operation amid the severe market conditions, and kept its category-A rating at the category ratings of PRC securities companies in 2016.

The year 2017 is a crucial year for the Company to implement its strategies, deepen its business transformation and consolidate its operation foundations. All employees of the Company will work together to tackle market challenges as may arise. We will continue to intensify business innovation and transformation while enhancing compliance and risk control, so as to highlight our characteristic and differentiated business advantages and expand our business scale and market influence. Through building a specialised and integrated back-office service system, we will endeavor to enhance the overall performance and comprehensive management standards of the Company, open up new prospects for the operation and development of the Company, and make unremitting efforts to build Hengtai Securities into an industry-leading company.

**Pang Jiemin**

*Chairman*

Beijing, the PRC, 24 March 2017

# Definitions

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

Articles of Association	the articles of association of the Company, as amended from time to time
asset securitisation	an act of converting less liquid assets into securities that can be traded freely in the financial market to have them become liquid and a direct way of financing through issuing securities in capital market and monetary market
Baotou Huazi	Baotou Huazi Industry Co., Ltd. (包頭華資實業股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600191) and a substantial shareholder of the Company
Board	the board of directors of the Company
Company, Hengtou Securities or, Hengtai Securities	a company established as a limited liability company in the PRC on 28 December 1998 and converted into a joint stock company with limited liability under the PRC laws on 3 November 2008 under the corporate name “恒泰证券股份有限公司” (Hengtai Securities Co., Ltd), and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English) as approved by and registered with the Registrar of Companies in Hong Kong on 27 April 2015, and whose H shares are listed on the Main Board of the Hong Kong Stock Exchange
Corporate Governance Code	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Director(s)	director(s) of the Company
Domestic Share(s)	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid-up in RMB
ETF	Exchange Trade Funds, a kind of open-ended funds with variable fund units which are listed and traded on the stock exchanges
end of Reporting Period	31 December 2016
Finance Street Capital	Beijing Finance Street Capital Management Centre (北京金融街資本運營中心), which holds 100% equity interest in Huarong Infrastructure

## Definitions (Continued)

Finance Street Investment	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司), formerly known as Beijing Finance Street Construction Group Co., Ltd. (北京金融街建設集團), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Finance Street Xihuan Properties	Beijing Finance Street Xihuan Properties Co., Ltd. (北京金融街西環置業有限公司), formerly known as Beijing Xihuan Properties Co., Ltd. (北京西環置業有限公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
FOF	Fund of Fund, a fund which specially invests in other securities investment funds
GDP	gross domestic product
Group	the Company and its subsidiaries
H Share(s)	overseas listed foreign ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Hong Kong Stock Exchange
Hangzhou Ruisi	Hangzhou Ruisi Industrial Co., Ltd. (杭州瑞思實業有限公司), which holds 97.08% equity interest in Shaanxi Tianchen
Hengtai Capital	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司), 100% equity interest of which is held by the Company
Hengtai Changcai	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司), 100% equity interest of which is held by the Company
Hengtai Futures	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司), 80% and 20% equity interest of which are held by the Company and Hengtai Capital, respectively
Hengtai Pioneer	Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司), 100% equity interest of which is held by the Company
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hongzhi Huitong	Beijing Hongzhi Huitong Industrial Co., Ltd. (北京鴻智慧通實業有限公司), a shareholder of the Company

## Definitions (Continued)

Huarong Infrastructure	Beijing Huarong Infrastructure Investment Co., Ltd. (北京華融基礎設施投資有限責任公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Huarong Investment	Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司), which holds 90% equity interest in Finance Street Xihuan Properties
Huifa Investment	Tibet Dazi Huifa Investment Co., Ltd. (西藏達孜匯發投資有限公司), formerly known as Shenzhen City Huifa Investment Co., Ltd. (深圳市匯發投資有限公司), and a shareholder of the Company
Huijin Jiaye	Beijing Huijin Jiaye Investment Co., Ltd. (北京匯金嘉業投資有限公司), a shareholder of the Company
IPO	Initial Public Offering
Listing	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange on 15 October 2015
Listing Date	15 October 2015
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
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
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
NEEQ	National Equities Exchange and Quotations
New China Fund	New China Fund Management Co., Ltd. (新華基金管理股份有限公司), 58.62% equity interest of which is held by the Company
Ningbo Shike	Ningbo Shike Trading Co., Ltd. (寧波實科商貿有限公司), which holds 70% equity interest in Qingyun Intercontinental
PRC or China	for the purpose of this report, the People's Republic of China (excluding Hong Kong, Macau Special Administration Region of the PRC and Taiwan)
Prospectus	the H Shares prospectus of the Company dated 30 September 2015
PPP	Public-Private Partnership

## Definitions (Continued)

Qingyun Intercontinental	Beijing Qingyun Intercontinental Technology Co., Ltd. (北京慶雲洲際科技有限公司), a substantial shareholder of the Company
Reporting Period	the year ended 31 December 2016
RMB	Renminbi, the lawful currency of China, the basic unit of which is Yuan
REITs	Real Estate Investment Trusts
SASAC Xicheng District	The State-owned Assets Supervision and Administration Commission of Xicheng District People's Government of Beijing Municipality (北京市西城區人民政府國有資產監督管理委員會), which holds 100% equity interest in each of Huarong Investment, Finance Street Capital and Finance Street Investment, respectively
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shaanxi Hongya	Shaanxi Hongya Ruijiu Trading Co., Ltd. (陝西弘雅瑞久商貿有限公司), which holds 99.60% equity interest in Ningbo Shike
Shaanxi Tianchen	Shaanxi Tianchen Technology Trading Co., Ltd. (陝西天宸科貿有限公司), which holds 97.08% equity interest in Hongzhi Huitong
Shanghai Julu	Shanghai Julu Information Technology Co., Ltd. (上海巨祿信息科技有限公司), which holds 99.47% equity interest in Shenzhen Zhongxin
Shanghai Xishida	Shanghai Xishida Electronic Technology Co., Ltd. (上海喜仕達電子技術有限公司), which holds 99.99% equity interest in Huijin Jiaye
Shanghai Yida	Shanghai Yida Technology Investment Co., Ltd. (上海怡達科技投資有限責任公司), a substantial shareholder of the Company
Shenzhen Zhongxin	Shenzhen Zhongxin Tuoye Technology Co., Ltd. (深圳中新拓業科技有限公司), which holds 95% equity interest in Shanghai Xishida
stock pledged repurchase transaction	a transaction in which eligible funds receivers get financing from eligible funds givers by pledging the stocks or other securities they hold and agree to return the funds and cancel the pledge some day in the future
substantial shareholder(s)	has the meaning ascribed thereto under the Listing Rules
Supervisor(s)	supervisor(s) of the Company

## Definitions (Continued)

Supervisory Committee	the supervisory committee of the Company
Suzhou Bingtai	Suzhou Bingtai Trading Co., Ltd. (蘇州秉泰貿易有限公司), which holds 94% equity interest in Hangzhou Ruisi
this report	the 2016 annual report of the Company
Tomorrow Holding	Tomorrow Holding Limited Company ( 明 天 控 股 有 限 公 司 ), which holds approximately 54% equity interest in Baotou Huazi, one of the substantial shareholders of the Company
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司), a joint stock company incorporated in the PRC with limited liability and a service provider of financial data, information and software, being an independent third party of the Company
Zhongchang Hengyuan	Zhongchang Hengyuan Holdings Limited (中昌恒遠控股有限公司), a substantial shareholder of the Company

## Material Risks

The Company's business is highly dependent on economic and market conditions in China. China's capital market conditions may change suddenly and dramatically, which could materially and adversely affect the Company's business, financial condition and results of operations. Further, the Company's business is also susceptible to changes in relevant PRC government policies, such as monetary policies, fiscal policies, foreign exchange policies, interest rate fluctuation, cost of funding, taxation policies, availability of short-term and long-term market funding sources, and legislation and regulations affecting the finance and securities industries.

The major risks faced by the Company include: strategic risk arising from change of strategic plans and management risk arising from internal operation in response to changes of the macro-economy and the capital markets; credit risk resulting from the failure of a debtor or counterparty to timely perform its contractual obligations; market risk of loss or revenue decline resulting from the overall or partial change of the market, including the risk of price fluctuation in equity-based assets, interest rate risk and exchange rate risk; liquidity risk of the inability to raise funds on a timely basis or at a reasonable cost to settle liabilities as they fall due, perform other payment obligations and satisfy other funding demands of normal business development; operation risk of financial loss resulting from the improper operation in transactional processes or the management system; legal and compliance risk resulting from the failure to make timely adjustment to the Company's operation and relevant standards corresponding to the adjustment to laws, regulations and provisions set by regulatory authorities; etc.

In view of the abovementioned risks, the Company has established internal control and risk management systems, compliance management system, risk control indicators monitoring system to prevent and reduce various risks the Company is exposed to in the course of operation.

# Company Profile

## I. BASIC INFORMATION ABOUT THE COMPANY

### 1. Name of company

Chinese name: 恒泰证券股份有限公司, being the corporate name in the PRC (carrying on business in Hong Kong as “恒投證券”)

English name: HENGTAI SECURITIES CO., LTD, being English translation of the corporate name in the PRC (carrying on business in Hong Kong as “HENGTOU SECURITIES”)

### 2. Board of Directors

#### Executive Directors

Mr. Pang Jiemin (*Chairman*)

Mr. Wu Yigang (*Vice chairman*)

#### Non-executive Directors

Mr. Zhang Tao

Mr. Chen Guanglei

Mr. Sun Chao

#### Independent Non-executive Directors

Mr. Peng Diyun

Ms. Zhou Jianjun

Dr. Lam Sek Kong

#### Special Committees of the Board

##### Strategy and Investment Committee

Mr. Pang Jiemin (*Chairman of the Committee*)

Mr. Sun Chao

Dr. Lam Sek Kong

### **Risk Control and Supervisory Committee**

Mr. Zhang Tao

Mr. Wu Yigang

### **Audit Committee**

Ms. Zhou Jianjun (*Chairman of the Committee*)

Mr. Zhang Tao

Dr. Lam Sek Kong

### **Remuneration and Nomination Committee**

Mr. Peng Diyun (*Chairman of the Committee*)

Ms. Zhou Jianjun

### **3. Supervisory Committee**

Mr. Guo Liwen (*Chairman of the Supervisory Committee*)

Ms. Pei Jingjing

Mr. Wang Hui

### **4. Legal Representative:** Mr. Pang Jiemin

**President:** Mr. Niu Zhuang

### **5. Registered capital:** RMB2,604,567,412

**Net capital:** RMB6,865,531,124.91

### **6. Qualifications for Businesses in China**

The Company is qualified for: securities business operation (the Company holds the license for securities business operation (No. Z20815000) issued by the CSRC), financial advice business on activities related to security investment, proprietary securities business, foreign exchange business, access to national inter-bank funding business, shares underwriting business, online securities commission business, membership of the Securities Association of China, entrusted investment management business, proxy

## Company Profile (Continued)

sale of open-end securities investment funds, sponsoring business, chief agency broker in the agency system, provision of intermediary services for futures companies, margin financing and securities lending business, small and medium-sized enterprise private debt underwriting business, chief agency broker on the NEEQ, distribution of financial products, refinancing business, securities backed lending business, online account opening business, stock option brokerage and proprietary business, market-making activities on the NEEQ, lending business for margin and securities refinancing, Southbound Trading under the Shanghai-Hong Kong Stock Connect, pilot over-the-counter (“OTC”) trading, administration of overseas securities investment of qualified domestic institutional investors, trial Internet-based securities services, custodian business for securities investment funds and Southbound Trading under the Shenzhen-Hong Kong Stock Connect.

### 7. Head Office in China

Registered address: 14–18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC (post code: 010098)

Head office address: 11/F, China Life Centre, No. 17 Finance Street, Xicheng District, Beijing, the PRC (post code: 100033)

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

Email: [dongban@cnht.com.cn](mailto:dongban@cnht.com.cn)

### 8. Place of Business in Hong Kong

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

### 9. Secretary of the Board

Mr. Zhang Wei

Tel: (86 471) 4913 858

Fax: (86 471) 4913 858

Email: [zhangwei@cnht.com.cn](mailto:zhangwei@cnht.com.cn)

Address: 18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC

### 10. Chief Compliance Officer and Chief Risk Officer

Ms. Yu Fang

Tel: (86 471) 4913 918

Fax: (86 471) 4913 918

Email: yufang@cnht.com.cn

Address: 18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC

### 11. Joint Company Secretaries

Mr. Zhang Wei, Ms. Leung Wing Han Sharon

### 12. Authorised Representatives

Mr. Pang Jiemin, Ms. Leung Wing Han Sharon

### 13. Auditors

International accounting firm: RSM Hong Kong

Domestic accounting firm: Ruihua Certified Public Accountants LLP

### 14. Hong Kong Legal Advisor

Luk & Partners

### 15. Compliance Advisor

Haitong International Capital Limited

### 16. Principal Bankers

China Minsheng Bank, Hohhot Branch

Industrial Bank Co., Ltd. Hohhot Branch

China Construction Bank Corporation, Hulun South Road Branch of Hohhot

China Merchants Bank Central Business, Branch of Shenzhen

## Company Profile (Continued)

### 17. H Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited

### 18. Stock Code (H Shares)

01476

## II. DEVELOPMENT HISTORY

The Company's predecessor is Inner Mongolia Autonomous Region Securities Company (內蒙古自治區證券公司), which was established by Inner Mongolia branch of the People's Bank of China upon the approval of the People's Bank of China in April 1992. In November 1998, the Company was converted into a limited liability company as approved by the CSRC with the Reply on the Approval of Capital Increase and Conversion of Inner Mongolia Autonomous Region Securities Company (Zheng Jian Ji Gou Zi [1998] No. 39) 《關於核准內蒙古自治區證券公司增資改制的批覆》(證監機構字[1998]39號)).

On 2 July 2002, upon approval by the CSRC with the Reply on Approval of the Capital Injection of Inner Mongolia Securities Co., Ltd. (內蒙古證券有限責任公司) (Zheng Jian Ji Gou Zi [2002] No. 194) 《關於核准內蒙古證券有限責任公司增資擴股的批覆》(證監機構字[2002]194號)), Inner Mongolia Securities Co., Ltd. completed the capital increase with its registered capital increased from RMB94,000,000 to RMB655,569,950. On 9 October 2002, upon approval by the Inner Mongolia Administration For Industry and Commerce, the Company was re-named as Hengtai Securities Limited Liability Company (恒泰證券有限責任公司).

On 3 November 2008, upon approval by the CSRC with the Reply on the Approval of Conversion into a Joint Stock Company with Limited Liability and the Change of Registered Capital of Hengtai Securities Limited Liability Company (Zheng Jian Ji Gou Zi [2008] No. 1148) 《關於核准恒泰證券有限責任公司變更為股份有限公司以及變更註冊資本的批覆》(證監機構字[2008]1148號)), Hengtai Securities Limited Liability Company was converted into a joint stock company with limited liability under the name of Hengtai Securities Co., Ltd. (恒泰證券股份有限公司), with its registered capital increased to RMB2,006,247,412.

On 10 March 2009, upon approval by the CSRC with the Reply on the Approval of Hengtai Securities Co., Ltd.'s Acquisition of Changcai Securities Brokerage Co., Ltd. (Zheng Jian Xu Ke [2009] No. 223) (《關於核准恒泰證券股份有限公司收購長財證券經紀有限公司的批覆》(證監許可[2009]223號)), the Company acquired Changcai Securities Brokerage Co., Ltd.. The registered capital of the Company was increased to RMB2,194,707,412 and Hengtai Changcai became a wholly-owned subsidiary of the Company upon the completion of the acquisition.

On 22 May 2009, upon approval by the CSRC with the Reply on the Approval of Change in Equity Interest in Shanghai Yongda Futures Brokerage Co., Ltd. (Zheng Jian Xu Ke [2009] No. 423) (《關於核准上海永大期貨經紀有限公司變更股權的批覆》(證監許可[2009]423號)), the Company acquired Shanghai Yongda Futures Brokerage Co., Ltd., and Shanghai Yongda Futures Brokerage Co., Ltd. became a wholly-owned subsidiary of the Company. Shanghai Yongda Futures Brokerage Co., Ltd. changed its name to Hengtai Futures Brokerage Co., Ltd. in August 2010, and then to Hengtai Futures Co., Ltd. in May 2011. On 30 June 2015, the registered capital of Hengtai Futures was increased from RMB100 million to RMB125 million. Hengtai Capital subscribed for the additional registered capital in a cash consideration of RMB50 million, at the price of RMB2 for RMB1 registered capital. Hengtai Futures was held by the Company and Hengtai Capital as to 80% and 20% respectively, upon completion of the capital increase. On 16 September 2015, Hengtai Futures was converted into a joint stock company with limited liability as a whole through converting its original net asset value into shares.

On 25 January 2013, the Company established Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司) in Beijing as a wholly-owned subsidiary of the Company, with a registered capital of RMB100 million.

On 3 June 2013, the Company established Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司) in Shenzhen as a wholly-owned subsidiary of the Company, with a registered capital of RMB200 million. On 29 January 2016, Hengtai Capital increased its registered capital from RMB0.2 billion to RMB1 billion in order to supplement working capital. On 10 November 2016, Hengtai Capital further increased its registered capital from RMB1 billion to RMB1.5 billion in order to supplement working capital.

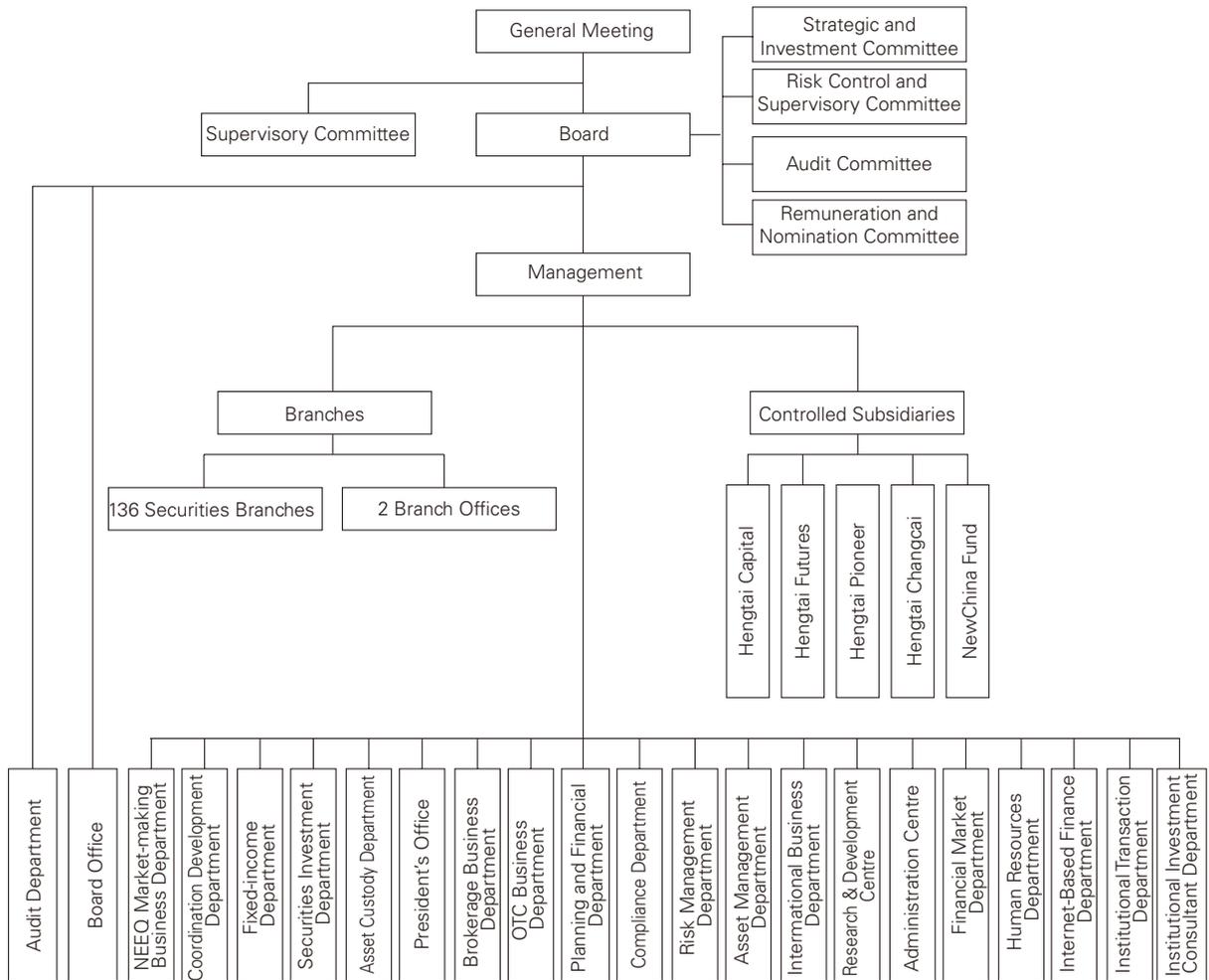
On 30 October 2013, upon approval by the CSRC with the Reply on the Approval of Change in Equity Interest in New China Fund Management Co., Ltd. (Zheng Jian Xu Ke [2013] No. 1376) (《關於核准新華基金管理有限責任公司變更股權的批覆》(證監許可[2013]1376號)), the Company acquired 43.75% equity interest in New China Fund Management Co., Ltd. and became the second largest shareholder of New China Fund. On 29 July 2015, upon approval by the CSRC with the Reply on the Approval of Change in Equity Interest in New China Fund

## Company Profile (Continued)

Management Co., Ltd. (Zheng Jian Xu Ke [2015] No. 1669) 《關於核准新華基金管理有限公司變更股權的批覆》(證監許可[2015]1669號)), the Company completed the subscription for additional 57,500,000 shares (representing 14.87% equity interest in New China Fund) at a consideration of RMB97,750,000. Upon completion of the capital increase, New China Fund was held by the Company as to 58.62% and became a non-wholly-owned subsidiary of the Company. On 28 September 2015, New China Fund Management Co., Ltd. was converted into a joint stock company with limited liability as a whole by converting its original net asset value into shares.

On 9 September 2015, the Company received the Reply on Approval of Issue of Overseas Listed Foreign Invested Shares by Hengtai Securities Co., Ltd. (Zheng Jian Xu Ke [2015] No. 2089) 《關於核准恒泰證券股份有限公司發行境外上市外資股的批覆》(證監許可[2015]2089號)) from CSRC, which approved the Company to publicly issue the overseas listed foreign invested shares (H Shares) and the listing of such shares on the main board of the Hong Kong Stock Exchange. On 15 October 2015, the overseas listed shares of the Company were officially listed on the Hong Kong Stock Exchange (stock code: 1476). The Company issued an aggregate of 450,846,000 H Shares (including the portion of reduced state-owned shares) (all being ordinary shares) with a nominal value of RMB1 each. The total share capital of Company was 2,604,567,412 shares upon completion of the issue.

### III. ORGANIZATIONAL STRUCTURE



## Company Profile (Continued)

### IV. SUBSIDIARIES

As of 31 December 2016, major subsidiaries of the Company are as follows:

#### (I) Controlled subsidiaries

Number	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB'0'000)	Shareholding percentage	Legal representative	Telephone
1	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司)	Section 479, 5/F, No. 57 Changjiang Road Economic Development Zone, Changjiang Road, Chang Chun, Jilin Province (吉林省長春市長江路經濟開發區長江路57號五層479段)	securities underwriting business, securities investment and fund distribution business and securities sponsoring business	10 January 2002	20,000	100%	Zhang Wei(張偉)	010-56673702
2	Hengtai Pioneer Investments Co., Ltd. (恒泰先鋒投資有限公司)	Building 5, No. 25 Shuntong Road, Shunyi District, Beijing (北京市順義區順通路25號5棟)	project investment; investment management; asset management; investment consulting and corporate management consulting	25 January 2013	10,000	100%	Wu Lihui (武麗輝)	010-83270868
3	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司)	Room 201, Block A, 1 Qianwan First Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong Province (廣東省深圳市前海深港合作區前灣一路1號A棟201室)	equity investment; debt investment in relation to equity; direct investment business; funds management and financial information consulting	3 June 2013	150,000	100%	Niu Zhuang (牛壯)	0755-83700311
4	Hengtai Futures Co., Ltd. <sup>1</sup> (恒泰期貨股份有限公司)	Unit 201, 2/F, No. 120 Block 91, E'shan Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區峨山路91弄120號2層201單元)	commodity futures brokerage; financial futures brokerage; advisory services related to futures investment and asset management	20 December 1992	12,500	80%	Fu Lixin (付立新)	021-68405668
5	New China Fund Management Co., Ltd. (新華基金管理股份有限公司)	19/F, Building 2, Lifan Centre, No. 6 Juxiyan Square, Jiangbei District, Chongqing (重慶市江北區聚賢岩廣場6號力帆中心2號辦公樓19層)	fund raising, fund distribution, asset management and other business as permitted by CSRC	9 December 2004	21,750	58.62%	Chen Zhong (陳重)	010-68726668

Note 1: The Company's shareholding percentage in such company is presented as direct shareholding percentage.

## (II) Major Subsidiaries of Hengtai Pioneer

Number	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB0,000)	Shareholding percentage	Legal representative	Telephone
1	Beijing Hengtai Hongze Investment Co., Ltd. (北京恒泰弘澤投資有限公司)	F2-1(B)701-2,7/F, No.2 and 4 Wudinghou Street, Xicheng District, Beijing (北京市西城區武定侯街2號、4號F2-1(B)701-2)	project investment; investment management; asset management; investment consultation; corporate management consulting	8 April 2015	1,000	100%	Wu Lihui (武麗輝)	010-56765390
2	Beijing Hengtai Puhui Information Service Co., Ltd. (北京恒泰普惠信息服務有限公司)	Room 605, Building B, No.33 Finance Street Xicheng District, Beijing (北京市西城區金融大街33號B幢605室)	economic and trade consulting; investment management; asset management; project investment; investment consultation; corporate management consulting; finance consulting	17 April 2015	1,000	100%	Liu Quansheng (劉全勝)	010-57649352
3	Beijing Hengtai Hengzhong Information Service Co., Ltd. (北京恒泰恒眾信息服務有限公司)	Room 615, Building C, No.33 Finance Street Xicheng District, Beijing (北京市西城區金融大街33號C幢615室)	investment management, asset management, project investment, investment consultation, corporate management consulting and finance consulting	16 July 2015	1,000	100%	Liu Quansheng (劉全勝)	010-83270999-9200

## Company Profile (Continued)

### (III) Major Subsidiaries of Hengtai Capital

Number	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB0,000)	Shareholding percentage	Legal representative	Telephone
1	Shanghai Yingwo Investment Management Co., Ltd. (上海盈沃投資管理有限公司)	Room 358, Building 3, No. 806 Fengzhen Road Hongkou District Shanghai (上海市虹口區豐鎮路806號3幢358室)	Investment management, asset management, investment consultation, industrial investment;	2 July 2013	2,000	100%	Niu Zhuang (牛壯)	010-56673933
2	Shenzhen Hengtai Capital Equity Investment Fund Management Co., Ltd. (深圳恒泰資本股權投資基金管理有限責任公司)	Room 201, Building A, 1 Qianwan Yi Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong Province (廣東省深圳市前海深港合作區前灣一路1號A棟201室)	entrusted management of equity investment funds, equity investment, funds management and investment consultation	9 September 2013	2,000	100%	Wang Jun (王軍)	0755-83700311
3	Shanghai Hongdian Investment Management Co., Ltd. (上海泓典投資管理有限公司)	Room 1009, No. 99 Huangpu Road, Hongkou District, Shanghai (上海市虹口區黃浦路99號1009室)	investment management, industrial investment, asset management, business consulting, corporate management consulting	4 May 2015	10,000	100%	Huang Weiguo (黃偉國)	021-33821309
4	Shenzhen Hengtai Baojuchang Investment Management Co., Ltd. (深圳恒泰寶聚昌投資管理有限公司)	22/F, Center Business Building, Fuhua First Road, Futian Street, Futian District, Shenzhen, Guangdong Province (廣東省深圳市福田區福田街福華一路中心商務大廈22層)	asset management, entrusted asset management, investment in industrial establishment, investment management in relation to investments in the securities market, equity investment, investment consultation	24 June 2015	300	51%	Wang Jun (王軍)	0755-83700311
5	Inner Mongolia Hengtai Shengda Investment Management Co., Ltd. (內蒙古恒泰盛達投資管理有限公司)	6/F, Region 2, Block A, Jindi Business Building, Xincheng District, Chifeng, Inner Mongolia Autonomous Region (內蒙古自治區赤峰市新城区金帝商務大廈A座2區6層)	asset management, investment management, investment advisory services	2 November 2015	3,000	51%	Niu Zhuang (牛壯)	010-56673933
6	Shenzhen Hengtai Xihe Equity Investment Fund Management Co., Ltd. (深圳恒泰羲和股權投資基金管理有限公司)	Room 201, Building A, 1 Qianwan yi Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong Province (廣東省深圳市前海深港合作區前灣一路1號A棟201室)	Investment consulting, investment management, entrusted management of equity investment funds, equity investment in unlisted companies, entrusted asset management, equity investment	14 November 2016	1,000	51%	Niu Zhuang (牛壯)	010-56673933

## Company Profile (Continued)

### (IV) Major Subsidiary of Hengtai Futures

Number	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB0,000)	Shareholding percentage	Legal representative	Telephone
1	Hengtai Yingwo Asset Management Co., Ltd. (恒泰盈沃資產管理有限公司)	1/F, No. 251 Block 1, Yaohua Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區耀華路251號一樓)	Asset management, investment management, industrial investment, venture capital investment, investment consulting, corporate management services, financial consulting, planning of corporate asset reorganisation and merger and acquisition, marketing planning	5 February 2016	5,000	100%	Fu Lixin (付立新)	021-68402780

### (V) Major Subsidiary of New China Fund

Number	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB0,000)	Shareholding percentage	Legal representative	Telephone
1	Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司) <sup>1</sup>	Room 3-01 Building 6, Ronghuiyuan, Airport Economic Core Zone, Shunyi District, Beijing (北京市順義區臨空經濟核心區融慧園6號樓3-01)	Asset management for specific customers and other businesses as approved by CSRC	10 April 2013	18,000	60%	Lin Yanfang (林艷芳)	010-5801085

*Note 1:* On 29 June 2016, Shenzhen New China Fushi Asset Management Co., Ltd. (深圳新華富時資產管理有限公司) changed its name to Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司). As of 23 February 2017, the registered capital of Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司) increased to RMB180 million from RMB90 million.

## Company Profile (Continued)

### V. BRANCH OFFICES

As of 31 December 2016, the Company had two branch offices, details of which are as follows:

Number	Name	Address (in China)	Date of establishment	Working capital (RMB0,000)	Person in charge	Telephone
1	Hengtai Securities Co., Ltd., Shenzhen Branch Office(恒泰 證券股份有限公司深圳分公司)	Rooms 2001-2020, Shenzhen Central Business Building, No. 88 Fuhuayuan Road, Futian District, Shenzhen (深圳市福 田區福華一路88號深圳中心商務大廈 2001-2020室)	17 August 2009	500	Hu Sanming (胡三明)	0755-82033486
2	Hengtai Securities Co., Ltd., Changchun Branch Office(恒 泰證券股份有限公司長春分公 司)	5/F, Dong'er'tiao East, Zhujiang Road North, Kuancheng District, Changchun, Jilin Province (吉林省長春市寬城區珠江 路北東二條東五樓)	27 May 2014	300	Cao Yalou (曹亞樓)	0431-82942266

### VI. DISTRIBUTION OF SECURITIES BRANCHES

As of 31 December 2016, the Company had a total of 136 securities branches (for details, please refer to Appendix to this report), among which, 24 were newly established in 2016 (please refer to "IV. (I) Branches of the Company" under Section 5 "Management Discussion and Analysis" of this report). Number and distribution of securities branches of the Company are as follows:

Province of location	Number of securities branches	Province of location	Number of securities branches
Inner Mongolia Autonomous Region	27	Hubei Province	2
Guangdong Province	22	Guangxi Zhuang Autonomous Region	2
Shanghai	19	Shanxi Province	1
Beijing	15	Hebei Province	1
Jilin Province	14	Chongqing	1
Zhejiang Province	12	Shaanxi Province	1
Shandong Province	8	Henan Province	1
Liaoning Province	4	Hunan Province	1
Fujian Province	2	Tianjin	1
Jiangsu Province	2		

# Summary of Accounting and Business Data

## I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES

(Accounting data and financial indexes set out in this report are prepared in accordance with the International Financial Reporting Standards)

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

Item	2016	2015	Increase/ (decrease) from last period (%)	2014
<b>Operating results (RMB'000)</b>				
Total revenue and other income	<b>3,541,155</b>	5,676,190	(37.61%)	2,269,453
Profit before tax	<b>642,577</b>	2,195,270	(70.73%)	837,334
Profit for the year-attributable to ordinary shareholders of the Company	<b>454,723</b>	1,700,772	(73.26%)	654,105
Net cash generated from / (used in) operating activities	<b>1,384,606</b>	(1,941,863)	171.30%	(1,371,848)
<b>Earnings per share (RMB/share)</b>				
Basic earnings per share <sup>1</sup>	<b>0.14</b>	0.72	(80.56%)	0.30
Diluted earnings per share <sup>1</sup>	<b>0.14</b>	0.72	(80.56%)	0.30
<b>Profitability index</b>				
Weighted average rate of return on net assets(%) <sup>2</sup>	<b>4.38%</b>	26.62%	(83.55%)	13.22%

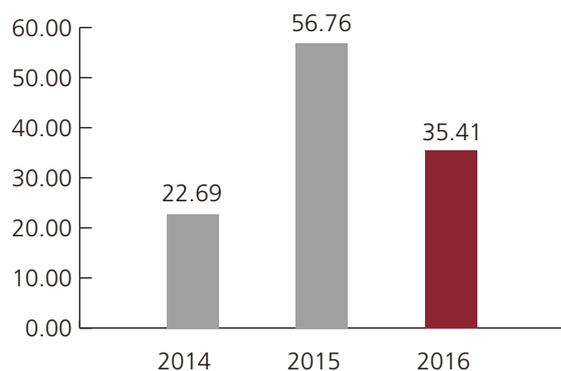
## Summary of Accounting and Business Data (Continued)

Item	31 December 2016	31 December 2015	Increase/ (decrease) from the end of last period (%)	31 December 2014
<b>Scale indicators (RMB'000)</b>				
Total assets	<b>37,148,596</b>	39,167,673	(5.15%)	21,817,518
Total liabilities	<b>27,212,391</b>	29,434,641	(7.55%)	16,542,521
Accounts payable to brokerage clients	<b>12,201,337</b>	13,977,558	(12.71%)	7,555,457
Equity attributable to ordinary shareholders and holders of perpetual capital securities	<b>9,660,960</b>	9,531,668	1.36%	5,274,997
<b>Total share capital</b> ( <i>'000 shares</i> )	<b>2,604,567</b>	2,604,567	0.00%	2,194,707
Net assets per share attributable to ordinary shareholders <sup>3</sup> ( <i>RMB/share</i> )	<b>3.13</b>	3.08	1.62%	2.40
Gearing ratio (%) <sup>4</sup>	<b>60.17%</b>	61.36%	(1.94%)	63.01%

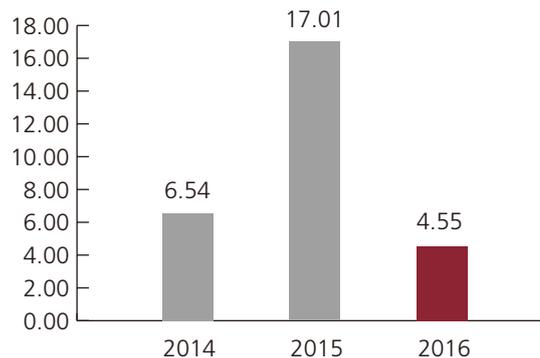
- The index is calculated based on the assumption of deducting the dividends of the accumulated perpetual capital securities holders.
- Weighted average rate of return on net assets (%) =  $P / (E_0 + P \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0)$ , in which P represents net profit attributable to ordinary shareholders of the Company during the Reporting Period;  $E_0$  represents net assets attributable to ordinary shareholders of the Company at the beginning of the period;  $E_i$  represents additional net assets from issuance of new shares or from debt to equity attributable to ordinary shareholders of the Company during the Reporting Period;  $E_j$  represents reduced net assets from repurchase or from cash dividend attributable to ordinary shareholders of the Company during the Reporting Period;  $M_0$  represents number of months of the Reporting Period;  $M_i$  represents the accumulative number of months calculated from the month following the additional net assets to the end of the Reporting Period;  $M_j$  represents the accumulative number of months calculated from the month following the reduced net assets to the end of the Reporting Period.
- Net assets per share attributable to ordinary shareholders = (equity attributable to ordinary shareholders and holders of perpetual capital securities – perpetual capital securities) ÷ by total share capital
- Gearing ratio (%) = (total liabilities – account payables to brokerage clients)/(total assets – account payables to brokerage clients)

## Summary of Accounting and Business Data (Continued)

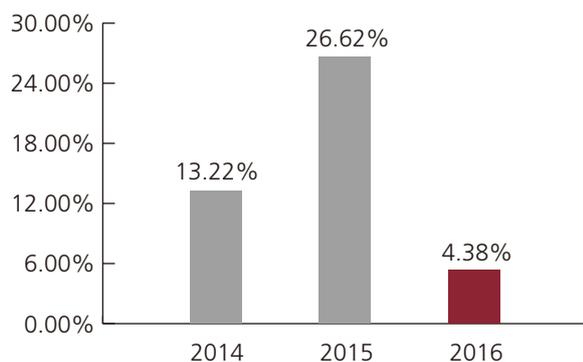
**Revenue and other income  
(RMB100 million)**



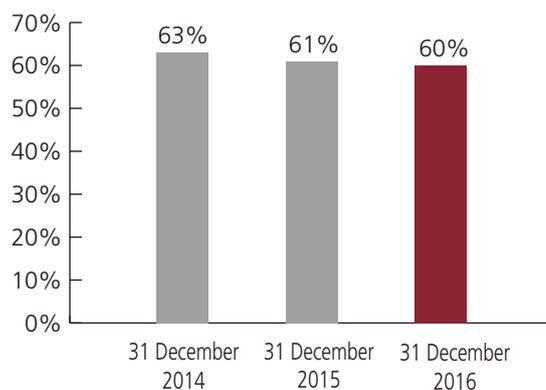
**Profit attributable to shareholders/  
ordinary shareholders of the Company  
(RMB100 million)**



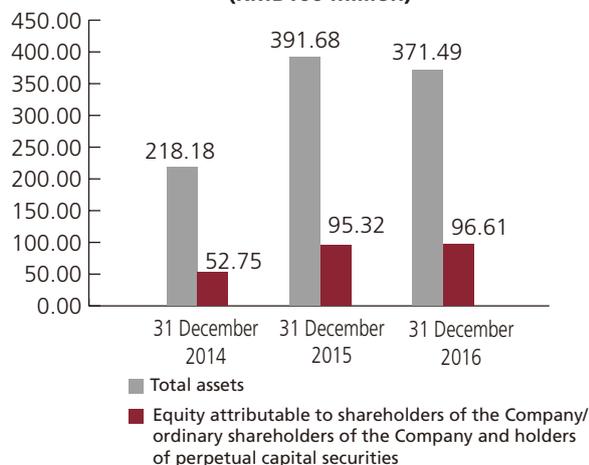
**Weighted average return  
on net assets**



**Gearing ratio**



**Scale indicators  
(RMB100 million)**



## Summary of Accounting and Business Data (Continued)

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

Earnings (RMB'000)

<u>Item</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue and other income	<b>3,541,155</b>	5,676,190	2,269,453	1,422,200	874,035
Total operating expenses	<b>(2,897,455)</b>	(3,493,386)	(1,447,271)	(897,705)	(722,429)
Profit before tax	<b>642,577</b>	2,195,270	837,334	524,076	151,606
Profit for the year – attributable to ordinary shareholders of the Company	<b>454,723</b>	1,700,772	654,105	399,095	111,555

Assets, liabilities and equity (RMB'000)

<u>Item</u>	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Total assets	<b>37,148,596</b>	39,167,673	21,817,518	9,880,133	9,633,290
Total liabilities	<b>27,212,391</b>	29,434,641	16,542,521	5,223,246	5,266,124
Accounts payable to brokerage clients	<b>12,201,337</b>	13,977,558	7,555,457	3,722,632	4,297,157
Equity attributable to ordinary shareholders and holders of perpetual capital securities	<b>9,660,960</b>	9,531,668	5,274,997	4,656,887	4,367,166
Total share capital ( <i>'000 shares</i> )	<b>2,604,567</b>	2,604,567	2,194,707	2,194,707	2,194,707

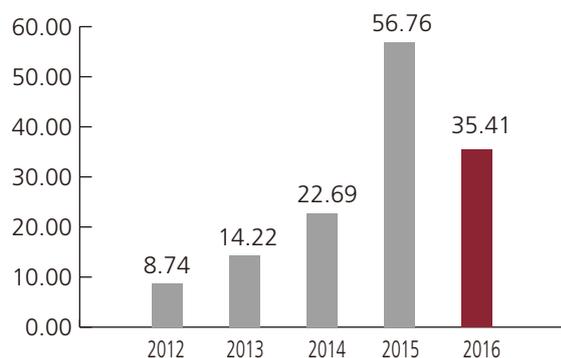
## Summary of Accounting and Business Data (Continued)

### Key financial indexes

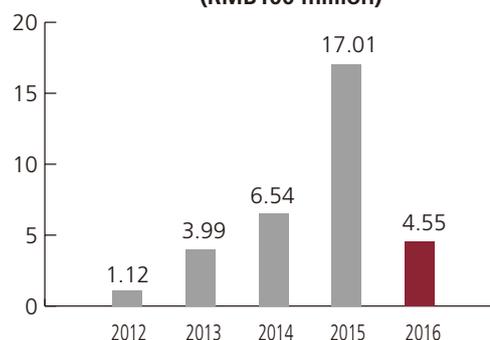
<b>Item</b>	<b>2016</b>	2015	2014	2013	2012
Basic earnings per share (RMB/share)	<b>0.14</b>	0.72	0.30	0.18	0.05
Diluted earnings per share (RMB/share)	<b>0.14</b>	0.72	0.30	0.18	0.05
Weighted average return on net assets (%)	<b>4.38%</b>	26.62%	13.22%	8.85%	2.75%
	<b>31 December 2016</b>	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Gearing ratio (%)	<b>60.17%</b>	61.36%	63.01%	24.37%	18.16%
Net assets per share attributable to ordinary shareholders (RMB/share)	<b>3.13</b>	3.08	2.40	2.12	1.99

## Summary of Accounting and Business Data (Continued)

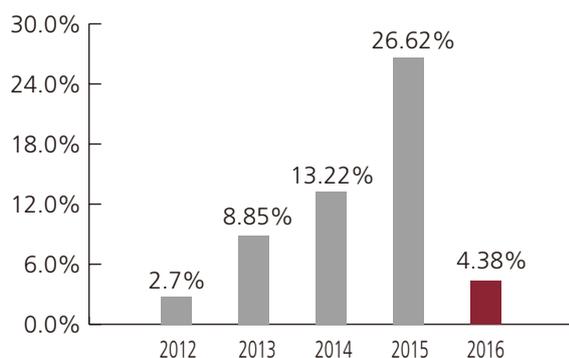
**Revenue and other income  
(RMB100 million)**



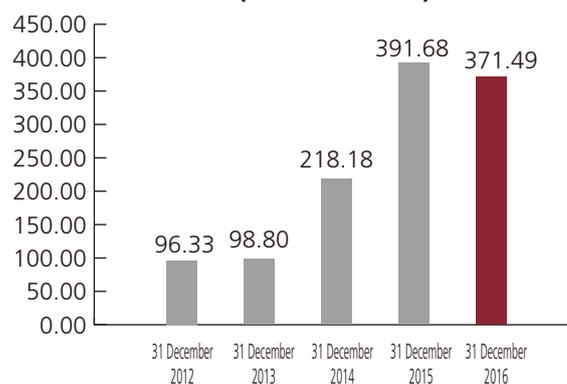
**Profit attributable to shareholders/  
ordinary shareholders of the Company  
(RMB100 million)**



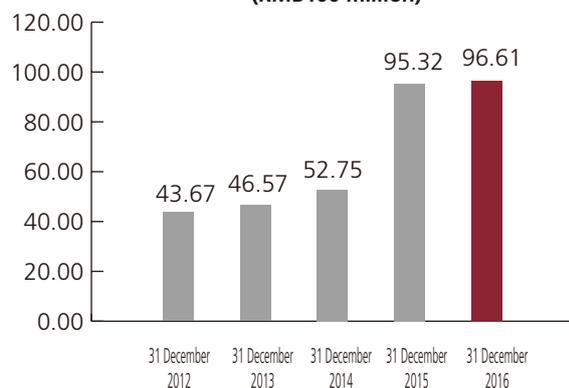
**Weighted average return  
on net assets**



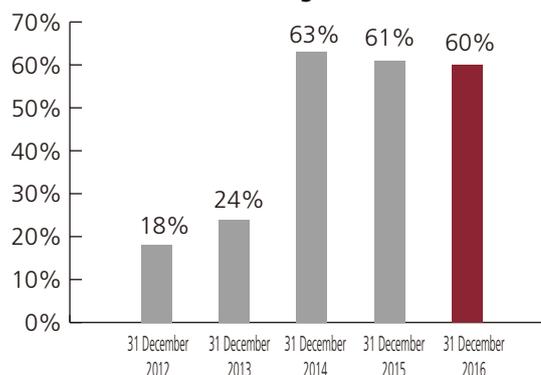
**Total assets  
(RMB100 million)**



**Total equity attributable to shareholders of  
the Company/ ordinary shareholders of  
perpetual capital securities  
(RMB100 million)**



**Gearing ratio**



## Summary of Accounting and Business Data (Continued)

### II. DIFFERENCES OF ACCOUNTING DATA UNDER DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

The consolidated financial statements prepared by the Company in accordance with International Financial Reporting Standard and the consolidated financial statements prepared in accordance with China's Accounting Standards for Business Enterprises show no material difference on the net profit for 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 INDEXES

As at 31 December 2016, the Company's net capital amounted to RMB6,865.53 million, representing a decrease of RMB1,807.08 million as compared to RMB8,672.61 million at the end of 2015. During the Reporting Period, related risk control indexes including the Company's net capital met the regulatory requirements.

Unit: in RMB'000

Item	31 December 2016	31 December 2015 <sup>1</sup>	Regulatory standard
Net capital	<b>6,865,531</b>	8,672,613	N/A
Including : Net core capital	<b>5,265,531</b>	6,382,613	N/A
Net supplement capital	<b>1,600,000</b>	2,290,000	N/A
Net assets	<b>9,442,948</b>	9,517,729	N/A
Total risk capital provision	<b>2,980,246</b>	3,006,140	N/A
Total assets on and off statement of financial position	<b>23,004,162</b>	22,742,397	N/A
Risk coverage ratio	<b>230.37%</b>	288.50%	≥100%
Capital leverage ratio	<b>22.89%</b>	28.06%	≥8%
Liquidity coverage ratio	<b>824.68%</b>	412.93%	≥100%
Net stable funding ratio	<b>131.44%</b>	160.46%	≥100%
Net capital/net assets	<b>72.71%</b>	91.12%	≥20%
Net capital/liabilities	<b>53.95%</b>	69.89%	≥8%
Net assets/liabilities	<b>74.20%</b>	76.70%	≥10%
Proprietary equity securities and securities derivatives/ net capital	<b>40.09%</b>	30.48%	≤100%
Proprietary non-equity securities and securities derivatives/net capital	<b>98.93%</b>	78.56%	≤500%

Note 1: According to the "Decision regarding the Amendments to Administrative Measures for Risk Control Indicators of Securities Companies [Zheng Jian Hui Ling No. 125] (關於修改〈證券公司風險控制指標管理辦法〉的決定(證監會令[第125號]))" by the CSRC, the revised Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) and the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies (《證券公司風險控制指標計算標準規定》) took effect since 1 October 2016. To meet the comparable requirement of indexes, related risk control indexes including the Company's net capital for the year 2015 were required to be recalculated by adoption of the calculation standard for new risk control indexes in accordance with the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies (《證券公司風險控制指標計算標準規定》).

# Management Discussion and Analysis

## I. ECONOMIC AND MARKET ENVIRONMENT DURING THE REPORTING PERIOD

During the Reporting Period, China's macro-economy was running smoothly. In the year, China's GDP grew by 6.7% year-on-year, representing 0.2 percentage point lower than that of the same period of 2015. Under the pressure from depreciating Reminbi and shrinking foreign exchange reserves, the People's Bank of China continued to implement prudent monetary policies, thus maintaining a basically stable market liquidity and a relatively stable interest rate in the monetary market. In the year, newly-added social financing totaled RMB17.8 trillion, representing an increase of RMB2.4 trillion as compared to 2015, with the growth of broad money and narrow money by 11.3% and 21.4% year-on-year, respectively.

During the Reporting Period, main indexes of the stock market experienced an overall drop and the trading volumes declined significantly. In 2016, the Shanghai Composite Index opened at 3,536.59 points, and then plunged to 2,638.30 points at the beginning of the year and closed at 3,103.64 points at the end of the year, representing a decrease of 12.31% as compared to that at the end of 2015; the Shenzhen Component Index opened at 12,650.72 points at the beginning of the year, and then plunged to 8,986.52 points and closed at 10,177.14 points at the end of the year, representing a decrease of 19.64% as compared to that at the end of 2015. In 2016, the trading volumes in the Shanghai and Shenzhen stock markets decreased considerably, among which the turnover of stocks and funds on Shanghai Stock Exchange amounted to RMB58,722.463 billion, the turnover of stocks and funds on Shenzhen Stock Exchange amounted to RMB79,806.499 billion, and the total turnover of stock and funds on the Shanghai and Shenzhen stock markets amounted to RMB138,528.962 billion, representing a year-on-year decrease of 48.75%. (data source: websites of State Statistics Bureau and People's Bank of China, Wind Info)

## II. ANALYSIS OF PRINCIPAL BUSINESS

During the Reporting Period, China's stock market was in the doldrums with falling stock prices and trading volumes. As a result, the Group's revenue from brokerage and wealth management business, investment management business, and proprietary trading business decreased drastically. During the Reporting Period, the Group recorded revenue and other income of RMB3,541.16 million and a net profit of RMB522.15 million, representing a decrease of 37.61% and 69.49% as compared with the same period of 2015, respectively.

## Management Discussion and Analysis (Continued)

### (I) Brokerage and wealth management business

During the Reporting Period, the revenue and other income from brokerage and wealth management business amounted to RMB1,839.41 million, representing a decrease of 43.19% as compared with the same period of 2015.

#### 1. Securities brokerage

During the Reporting Period, facing the sluggish stock market in China, the Company achieved steady business development through multiple channels such as continuous and intensified promotion for online account opening, increase of branches and devoting more efforts in development of institutional clients. In 2016, the Company continued to accelerate the development of internet-based financial business by setting up an internet-based financing department. Through extensive contacts with internet enterprises, seeking cooperation for growth and expanding cooperation channels, the online expansion sped up apparently and accordingly the business influence was increased significantly. For the purpose of attracting more attention and improving activity level of the clients, the Company hosted the Tencent Stock Contest, introduced Wechat operation pilot and carried out a variety of activities in relation to the contemporary hot topics. It also optimised its search engine and put more efforts in brand promotion. In 2016, with a view to advancing institutional business development, the Company established an institutional transaction department. In terms of business development, it rapidly established the framework for business modes and business scenarios, actively introduced strategic partners and completed introduction of sizable customers and sizable funds which inflow from banks' wealth management arms. In terms of system development, the Company has completed optimisation of the overall system and restructuring of the offering systems, which improved the building and promotion of the online system.

## Management Discussion and Analysis (Continued)

During the Reporting Period, the number of new accounts opened reached 377,800 (including 264,600 online accounts), and the total number of client reached 2,066,800, representing an increase of 21.94% as compared with the end of 2015. The total assets under custody for clients reached RMB157,703.40 million, representing an increase of 22.19% as compared with the end of 2015. As a result of significant drop in the market turnover, the turnover of stocks and funds reached RMB1,524,557.82 million, representing a decrease of 35.24% as compared with 2015, while the market share of stocks and funds was 0.55%, representing an increase of 26.48% as compared with 2015.

### Prospects for 2017

The Company will continue to seek new development of securities brokerage business by promoting the business with innovation, thus further advancing the transformation of revenue model. Additional efforts will be exerted by the Company to strengthen the management of account opening, expedite the transformation and innovation of branches and guide the branches to exert more efforts to attract institutional clients, so as to expand the assets scale at a fast pace. Moreover, the Company will strengthen staff training and center on the basic elements regarding clients, staff and products to improve operation efficiency of brokerage business and facilitating seamless communication between staff and client, thus providing the clients with service which can meet the demands thereof.

### 2. Futures brokerage

During the Reporting Period, Hengtai Futures prepared its work plans for the coming three years to clarify its development strategies, and had also obtained the qualification for futures asset management business and established an asset management subsidiary. Its capital structure had been optimised, providing a solid basis for developing new businesses; it improved its platform building, adjusted its business structure and expanded its business scope; while consolidating its traditional brokerage business, it further tapped the market potentials; and through innovating in service measures, it further enhanced its marketing and service ability. During the Reporting Period, Hengtai Futures' influence was expanding as the interests of its clients continually increased, the compliance and regulation was leveled up and its innovation ability was strengthened. In 2016, the number of new clients of Hengtai Futures amounted to 4,063, representing an increase of 52.50% as compared to 2015.

## Management Discussion and Analysis (Continued)

### Prospects for 2017

Under the new situations in the futures market, Hengtai Futures will deploy as planned to accelerate the strategic transformation of futures, with a view to building a platform with complete derivatives instruments, abundant products and high efficient operation while consummating the building of bulk commodities and risks management platforms.

### 3. Wealth management

During the Reporting Period, the Company constantly improved its wealth management level and asset allocation capability based on the overall performance of the securities market and macro-economy, its own business development requirements and the needs of the clients. Firstly, it continually optimised the sales structure of financial products, and vigorously developed the sales of private equity funds while stabling the sales of public funds. Secondly, it reinforced the management of investment and consultation activities on the third party platforms, organised sales activities in an orderly way, introduced new investment and consultation products and effectively satisfied the demands of the clients, thus increasing the sales volume of the investment and consultation products. Meanwhile, the Company strengthened risk control, enhanced risk awareness and improved compliance-based operation. Throughout the year, the Company sold 80 financial products and recorded sales of RMB8,665.51 million, representing a decrease of 12.68% as compared to 2015.

### Prospects for 2017

The Company will continue to intensify the combination of marketing and service, and further accelerate the development of innovation business. While strengthening investor education and suitability management activities, the Company will improve the sales revenue structure of financial products, and constantly carry out special marketing campaigns, with the focus to be laid on redevelopment of existing clients and maintenance of key clients.

## Management Discussion and Analysis (Continued)

### 4. Capital-based intermediary business

During the Reporting Period, the securities market remained sluggish. In the context of continuous de-capacity and de-leveraging, the Company's capital-based intermediary business scaled down. While improving the quality of client service, the Company vigorously developed quality clients, maintained the utilisation efficiency of funds at a reasonable level and enhanced the control over the business risks. As at the end of the Reporting Period, the size of stock-pledged repurchase amounted to RMB966.62 million, representing an increase of 303.41% as compared to the end of 2015; and the balance of the margin financing and securities lending amounted to RMB5,173.94 million, representing a decrease of 17.24% as compared to the end of 2015.

#### Prospects for 2017

The Company will enhance analysis and management of the clients, and provide training for the existing clients and standardise our management on them. In addition, it will reinforce capital management and control costs in a reasonable manner. With a view to improving risk management, the Company will enhance investor education and suitability management of the clients in strict accordance with risk control measures.

### 5. Asset custody business

During the Reporting Period, the asset custody business saw a rapid development and became a new revenue growth driver of the Company. As at the end of 2016, the Company provided custody services for 527 funds and provided outsourcing services for 452 funds. As a result, the total size of asset custody and outsourcing services soared to RMB48,592 million, representing an increase of RMB48,016 million as compared with the end of 2015.

#### Prospects for 2017

For asset custody business, the Company will proactively develop large fund managers and the focus of its business layout will be placed on economically developed regions. It will further develop institutional customers including financial institutions, enhance quality of customer service, and expand business cooperation channels to strengthen in-depth cooperation with various financial institutions.

## Management Discussion and Analysis (Continued)

### (II) Investment banking business

During the Reporting Period, the revenue and other income from investment banking business amounted to RMB450.67 million, representing an increase of 56.03% as compared to 2015.

In 2016, China's capital market significantly sped up its paces towards the standardised development. With respect to the investment banking business, Hengtai Changcai adapted to the changes in the market while strictly controlling over the risks of projects and operating in a standardised manner, actively capitalised on the opportunities arising from such changes, thereby achieved rapid development in businesses including IPO, refinancing and enterprise bonds.

#### 1. Equity financing

During the Reporting Period, Hengtai Changcai completed 3 IPO projects, 1 merger and reorganisation project and 2 refinancing projects, with the total financing amount of RMB10,263 million, representing an increase of 186% as compared to 2015.

#### 2. Debt financing

During the Reporting Period, Hengtai Changcai completed 16 enterprise bonds projects and 4 corporate bonds projects, with the total financing amount of RMB18,390 million, representing an increase of 240% as compared to 2015.

#### 3. Business of listing on the NEEQ

During the Reporting Period, relevant policies, regulations and business rules were promulgated successively, which greatly improved the standardisation of the business but intensified competition in the industry. As for the business of listing on the NEEQ, efforts were made to improve business competitiveness, explore project resources and upgrade business quality, as a result of which, the number of completed projects increased significantly with notably higher ranking in the industry. During the Reporting Period, the Company completed 50 listing projects and 24 targeted capital increase projects, representing an increase of 285% and 360%, respectively, as compared to 2015, for which the Company was ranked 32nd in the market, moving up 35 places from the same period of 2015.

## Management Discussion and Analysis (Continued)

### Prospects for 2017

As for investment banking business, the Company will further reinforce the control over the quality risks of projects, further increase investments in direct debt financing, IPO and refinancing while strictly controlling the risks. Under the guidance of “serving the real economy with finance”, it will consolidate and enhance the competitive advantages of traditional businesses including bonds and equities underwriting. Meanwhile, it will actively promote business transformation in mergers and reorganization, refinancing, asset securitisation and structured financing, enhance its capabilities to judge and manage credit risks and issuance risks, and continue to push ahead the transformation from “intermediary-service-oriented investment banking” to “industry-service-oriented investment banking”. The business of listing on the NEEQ will expand the business range in terms of width and depth and facilitate the expansion of derivative businesses including targeted capital increase, market-making as well as mergers and acquisitions of the listed enterprises. Meanwhile, the Company will actively explore project resources and enhance its capabilities to provide follow-up services to the clients.

### **(III) Investment Management Business**

During the Reporting Period, the revenue and other income from investment management business amounted to RMB976.80 million, representing a decrease of 2.32% as compared to 2015.

#### 1. Assets management

During the Reporting Period, the downward pressure on domestic economy increased, the securities market indices declined and financial regulations became tighter. A number of policies aiming at risk control were launched, resulting in a decrease in the income of those segments under the asset management business engaged in investing in various equity-based products. As for the asset management business, the Company further intensified the asset securitisation segment while consolidating its traditional business segments. Meanwhile, it improved the layout of futures asset management segment, thus achieving significant growth of the management scale and laying a foundation for the development of the business in future. In addition to the established business network which was engaged in capital cooperation with a number of channels including insurance, bank and enterprise, the Company gave full play to the synergistic effects of other businesses to build a business platform.

## Management Discussion and Analysis (Continued)

As at the end of the Reporting Period, the total size of asset management business was RMB77,502.98 million, representing an increase of 87.21% as compared to the same period last year, of which the size of collective scheme amounted to RMB2,756.24 million, targeted scheme amounted to RMB42,546.89 million, asset securitisation amounted to RMB32,199.85 million.

During the Reporting Period, the numbers of the collective and targeted asset management schemes increased by 24 and 27, respectively, resulting in 36 and 36 subsisting products, respectively.

During the Reporting Period, the Company maintained its leading position in the terms of enterprise assets securitisation and had built up greater influence in the industry. It was granted a number of awards, including the Annual Award of 2016 China Asset Securitization Forum and New Fortune-the Best Investment Bank for Asset Securitization in China. The Company was engaged in 9 issue projects of enterprise assets securitisation with the total issue size of RMB14,259 million as the manager/promoter and sales institution.

During the Reporting Period, the asset management subsidiary of Hengtai Futures issued a total of 22 products with the issue size of RMB774.59 million, representing an increase of 2,381.97% as compared to the end of 2015.

### Prospects for 2017

The Company will upgrade its active management in respect of asset management business, aiming for gradual transformation of its client base from retail clients to institutional clients; it will enrich its product lines of asset management business to gradually establish presence in equity-based investment, quantitative investment and products configured with overseas assets. In regard to the asset securitisation business, the Company will endeavor to maintain its leading position in the industry, invest more resources into like-REITs, PPP, supply chain finance, consumer finance and other asset types to improve its capabilities to design products and conduct follow-up management, and diversify its existing product structure, thus gaining effective market competitiveness. Aiming at developing bulk commodities, FOF quantitative, equity-based investments and other traditional businesses, the futures asset management business will enhance its active management ability through integrating resources from both internal investment and research departments and external strategic cooperation partners.

## Management Discussion and Analysis (Continued)

### 2. Fund management

During the Reporting Period, China's fund industry witnessed slower growth in business scale, higher industry concentration and fiercer competition while the investment ability of funds was being challenged. Under such backdrop, New China Fund actively responded to such adverse market factors, and spared no efforts in expanding its various businesses. It improved its integrated mode of investment and research, set up an "investment-performance-oriented" research mechanism, endeavored to improve its performance; meanwhile, it enhanced its abilities to expand markets and maintain channels based on the characteristics of its products and clients, thus propelling the rapid development of its business.

As at the end of the Reporting Period, New China Fund had 41 publicly-raised funds with management size amounting to RMB44,079 million, representing an increase of RMB9,717 million or 28.28% as compared to the end of 2015. The size of asset management with special accounts reached RMB13,300 million, representing an increase of RMB3,500 million or 35.71% as compared to the end of 2015.

#### Prospects for 2017

New China Fund will actively promote the building of investment and research team to improve the investment performance; devote efforts in product planning and reserve and strengthen sales of fund products; fully capitalise on the advantages of channel resources and actively carry out sales pertaining to special account products under active management; reinforce compliance management and elevate the level of risk control and prevention to provide more support and security for business development; and intensify the building of brand and image to enhance its recognition and influence among the channels and clients.

### 3. Private equity investment business

During the Reporting Period, Hengtai Capital continued to promote the equity investment business, proactively carried out project reserve and consolidated post-investment management. During the Reporting Period, Hengtai Capital made equity investments in 3 enterprises with a total investment amount of RMB110 million, and reserved 25 new projects. Its post-investment management was further consolidated. Among the 15 invested projects, it has exited from 3 projects and the remaining projects were still in lock-up period or under listing preparation.

## Management Discussion and Analysis (Continued)

### Prospects for 2017

Hengtai Capital will proactively enhance its investment strengths and expand its investment scale through capital increase and external fundraising; properly carry out post-investment management of the invested projects, to secure project exits and realisation of equity interests in the projects under lock-up period; explore other businesses including mergers and reorganization, private placement and financial consultation to increase new sources of profit; continue to promote the transitions of operation and management modes, realising the transformation of business mode towards holding-platform-based operation; and enhance the team building to foster powerful investment team and sales team.

#### 4. Alternative investment

During the Reporting Period, Hengtai Pioneer kept on promoting business transformation, and its business model was changed from direct investment and financing into the platform-based management of the investment of its subsidiaries. While gradually transforming itself towards a holding platform for alternative investments, Hengtai Pioneer devoted more efforts in the post-investment management of the subsisting projects and achieved returns on investments in real estate, artworks as well as films and television.

### Prospects for 2017

Hengtai Pioneer will further improve its internal control systems, enhanced the building of institutional system and risk control mechanism, so as to effectively prevent the investment risks. Meanwhile, Hengtai Pioneer will further carry forward business transformation and focus on investment with its own funds, thereby consolidating and strengthening its investment ability.

## Management Discussion and Analysis (Continued)

### (IV) Proprietary Trading Business

During the Reporting Period, the revenue and other income from the proprietary trading business amounted to RMB202.21 million, representing a decrease of 80.16% as compared to the corresponding period of 2015.

The stock investment business of the Company was affected adversely due to the circuit breaker mechanism in early 2016 and deterioration of the overall market environment. During the Reporting Period, adhering to the principle of prudent investment, the Company adjusted its investment strategy in a timely manner, and limited its overall floating losses within the range of stop losses; meanwhile, it actively broadened its revenue streams, and expanded into the new business fields including ETF market-making, FOF investments and quantitative investments, in addition to subscribing for new shares and participating in private placement.

In terms of fixed income business, during the Reporting Period, the Company seized market opportunities, actively carried out innovative businesses including interest rate swap, treasury bond futures and the exchange-based pledge repurchase on a trial basis, enhanced portfolio income, strictly controlled credit risks and reduced financing costs, thus achieving admirable investment gains.

In terms of the share transfer market-making business, as at the end of the Reporting Period, the Company provided market-making quotation services to over 100 enterprises, recording a year-on-year growth of 66.67%. However, due to the sluggish performance of NEEQ market, together with the poor liquidity of NEEQ market, the share transfer market-making business of the Company was affected adversely.

## Management Discussion and Analysis (Continued)

Prospects for 2017

In terms of the stock investment business, the Company will proactively broaden the channels for price consultation and placement of new shares, capitalise on the investment opportunities from private placement and explore new investment channels including quantitative investment and Southbound Trading, thereby adding new revenue streams. As for the bond investment business, the Company will deepen its market research, and carry out the derivative products businesses, such as the exchange-quoted repurchase, treasury bond futures, interest rate swap and credit default swap. Regarding the share transfer market-making business, the Company will actively adjust its position structure for market-making and increase the proportion of shareholding in quality enterprises; improve the dynamic tracing system for the operating conditions of the enterprises for which the Company has been involved in the market-making, and timely adjust the market-making strategies; explore and develop the automated market-making trading strategy; and actively develop other services, aiming for diversification of income sources.

### **(V) International Business**

In 2016, the Company continued to push ahead its international business by proactively contacting the potential cooperative institutions and establishing communications and cooperation with them. Meanwhile, the Company explored the overseas business opportunities, understood the overseas demands of its clients and carried out relevant matching work. Further, it selected and reserved talents in foreign affairs, laying a sound foundation for the following development of its business.

Prospects for 2017

The Company will fully expand its resource networks for international business, continually explore and foster various businesses on the overseas market and actively push ahead the application for establishment of the Hong Kong subsidiary, thus promoting the development of international business.

# Management Discussion and Analysis (Continued)

## III. FINANCIAL STATEMENTS ANALYSIS

### (I) Analysis on the profitability during the Reporting Period

During the Reporting Period, the Group recorded revenue and other income of RMB3,541.16 million in aggregate, representing a year-on-year decrease of 37.61%. Net profit attributable to shareholders of the Company amounted to RMB454.72 million, representing a year-on-year decrease of 73.26%. Earnings per share amounted to RMB0.14, representing a year-on-year decrease of 80.56%. Weighted average return on net assets was 4.38%, representing a year-on-year decrease of 83.55%.

### (II) Asset structure and asset quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB37,148.60 million, down by 5.15% as compared to RMB39,167.67 million as at the end of 2015. Total liabilities amounted to RMB27,212.39 million, down by 7.55% as compared to RMB29,434.64 million as at the end of 2015. Equity attributable to shareholders of the Company amounted to RMB9,660.96 million, up by 1.36% as compared to RMB9,531.67 million as at the end of 2015.

The Group's asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held on behalf of brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB16,730.78 million, representing 45.04% of the Group's total assets; margin assets, which primarily included margin accounts receivable and financial asset held under resale agreements, amounted to RMB6,675.38 million, representing 17.97% of the Group's total assets; financial investment assets, which primarily included investment in associates and investment in financial assets, amounted to RMB12,095.86 million, representing 32.56% of the Group's total assets; save for the above items, assets of other categories amounted to RMB1,646.58 million, representing 4.43% of the Group's total assets.

## Management Discussion and Analysis (Continued)

The Group's gearing ratio and operating leverage ratio remained relatively stable. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB15,011.05 million, representing a year-on-year decrease of RMB446.03 million or 2.89%. The gearing ratio of the Group was 60.17%, down by 1.94% percentage points from 61.36% as at the end of 2015 (Note: gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Operating leverage ratio was 2.58 folds, down by 2.27% from 2.64 folds as at the end of 2015 (Note: operating leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to shareholders of the Company).

### **(III) Financing channels and financing ability**

The Company has met its operating capital requirement through equity financing and debt financing. During the Reporting Period, the Company met its operating capital requirement through debt financing. Debt financing of the Company included the issuance of long-term corporate bonds, short-term corporate bonds, margin and securities refinancing, beneficiary certificates and transfer of income right of margin financing and securities lending.

During the Reporting Period, the Company raised proceeds of RMB1,500 million from issuance of three-year long-term corporate bonds and RMB300 million from issuance of one-year short-term corporate bonds. Accumulated placements from China Securities Finance Co., Ltd. amounted to RMB1,190 million. Accumulated proceeds from the transfer of income right of margin financing and securities lending amounted to RMB3,800 million. Accumulated capital inflow from beneficiary certificates amounted to RMB2,500 million. Meanwhile, the Company received comprehensive credit line with greater limit granted by several banks. Proceeds raised from issuance of four-year subordinated bonds by Hengtai Futures, a subsidiary of the Company, amounted to RMB40 million.

## Management Discussion and Analysis (Continued)

### **(IV) Liquidity management of the Company**

The Company focuses on its liquidity management. It has established a specific department responsible for liquidity management. The Company's liquidity management focused 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 has prepared monthly liquidity monitor statement. The liquidity monitor index of the Company in each month throughout the Reporting Period complied with the regulatory requirements.

### **(V) Cash flow**

Net cash flow of the Group arising from operating activities for 2016 amounted to RMB1,384.61 million, up by RMB3,326.48 million from RMB-1,941.87 million in the corresponding period in 2015. Net cash flow arising from investment activities for 2016 amounted to RMB-1,191.58 million, down by RMB145.27 million from RMB-1,046.31 million in the corresponding period in 2015. Net cash flow arising from financing activities for 2016 amounted to RMB775.10 million, down by RMB3,733.22 million from RMB4,508.32 million in the corresponding period in 2015. Net increase in cash and cash equivalents for 2016 amounted to RMB968.13 million, down by RMB552.02 million from RMB1,520.15 million in the corresponding period in 2015.

### **(VI) Changes in significant accounting policies and estimates**

During the Reporting Period, there is neither material change in the significant accounting policies and estimates of the Company, nor the correction of material accounting errors.

## Management Discussion and Analysis (Continued)

### (VII) Analysis on operating revenue and profit

1. Items under statement of profit or loss

During the Reporting Period, the Group's profit before tax amounted to RMB642.58 million, representing a year-on-year decrease of 70.73%. The key financial results are as follows:

*Unit: in RMB million*

Items	2016	2015	Increase/ (decrease) compared to the previous year	Increase/ (decrease) compared to the previous year (%)
<b>Revenue</b>				
Fees and commission income	<b>2,281.19</b>	3,244.92	(963.73)	(29.70%)
Interest income	<b>819.52</b>	918.79	(99.27)	(10.80%)
Net investment income	<b>420.53</b>	1,440.53	(1,020.00)	(70.81%)
Other income and gains	<b>19.92</b>	71.95	(52.03)	(72.31%)
<b>Total revenue and other income</b>	<b>3,541.16</b>	5,676.19	(2,135.03)	(37.61%)
Total operating expenses	<b>2,897.46</b>	3,493.39	(595.93)	(17.06%)
<b>Profit before tax</b>	<b>642.58</b>	2,195.27	(1,552.69)	(70.73%)
Income tax expense	<b>120.43</b>	483.82	(363.39)	(75.11%)
<b>Profit for the year</b>	<b>522.15</b>	1,711.45	(1,189.30)	(69.49%)
Net profit attributable to ordinary shareholders of the Company	<b>454.72</b>	1,700.77	(1,246.05)	(73.26%)

## Management Discussion and Analysis (Continued)

### Revenue structure

During the Reporting Period, total revenue and other income of the Group amounted to RMB3,541.16 million, representing a year-on-year decrease of 37.61%. Among which, the proportion of commission and fee income was 64.42%, representing a year-on-year increase of 7.25 percentage points. The proportion of interest income was 23.14%, representing a year-on-year increase of 6.95 percentage points. The proportion of net investment gains was 11.88%, representing a year-on-year decrease of 13.50 percentage points. The revenue structures of the Group in the past five years are as follow:

Items	2016	2015	2014	2013	2012
Fees and commission income	<b>64.42%</b>	57.17%	48.76%	56.1%	61.6%
Interest income	<b>23.14%</b>	16.19%	15.03%	12.1%	12.6%
Net investment income	<b>11.88%</b>	25.38%	35.27%	30.3%	25.0%
Other income and gains	<b>0.56%</b>	1.26%	0.94%	1.5%	0.8%
<b>Total</b>	<b>100.00%</b>	100.00%	100.00%	100.0%	100.0%

### Fees and commission income

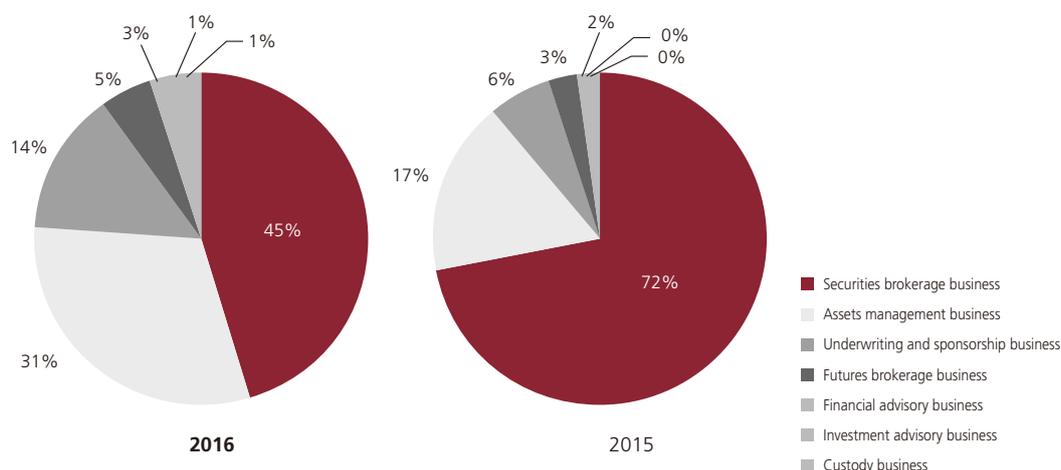
During the Reporting Period, the Group's fees and commission income consists of the following:

*Unit: in RMB million*

Items	2016	2015	Increase/ (decrease) compared to the previous year	Increase/ (decrease) compared to the previous year (%)
<b>Fees and commission income</b>				
Securities brokerage business	<b>1,042.92</b>	2,329.25	(1,286.33)	(55.23%)
Assets management business	<b>702.72</b>	553.02	149.70	27.07%
Underwriting and sponsorship business	<b>314.42</b>	209.76	104.66	49.90%
Financial advisory business	<b>112.98</b>	81.89	31.09	37.97%
Futures brokerage business	<b>67.22</b>	58.43	8.79	15.04%
Investment advisory business	<b>28.94</b>	12.57	16.37	130.23%
Custody business	<b>11.99</b>	–	11.99	N/A
<b>Total fees and commission income</b>	<b>2,281.19</b>	3,244.92	(963.73)	(29.70%)
<b>Fees and commission expenses</b>	<b>165.71</b>	300.50	(134.79)	(44.86%)
<b>Net fees and commission income</b>	<b>2,115.48</b>	2,944.42	(828.94)	(28.15%)

## Management Discussion and Analysis (Continued)

The Group's fees and commission income consists of:



During the Reporting Period, net fees and commission income of the Group amounted to RMB2,115.48 million, representing a year-on-year decrease of 28.15%. The decrease was primarily attributable to the significant decrease in fees and Commission income generated from securities brokerage business.

Fees and commission income generated from securities brokerage business decreased RMB1,286.33 million or 55.23% year-on-year, primarily attributable to the rarely seen consecutive plunges caused by the upheaval in A share market for the year 2016 after the implementation of circuit breaker mechanism and the concurrent significant decrease in the fees and commission income generated from securities brokerage business caused by the decrease in the average commission rate.

Fees income generated from assets management business increased by RMB149.70 million, representing an increase of 27.07%, primarily attributable to the statements consolidation of New China Fund for the period from August to December 2015 and the entire year of 2016 by the Company. As a result, income from assets management business in 2016 increased as compared to the previous year.

## Management Discussion and Analysis (Continued)

Underwriting and sponsorship income generated from investment banking business increased by RMB104.66 million or 49.90% year-on-year, mainly because Hengtai Changcai, an investment banking subsidiary of the Company, fully grasped the opportunity of the rapid development in the bonds market and adjusted business structure in a timely manner and strenuously carried out merger, acquisition and restructuring, and corporate bonds business, resulted in increase in business income as compared to the previous year. Financial advisory income generated from investment banking business increased by RMB31.09 million or 37.97% year-on-year.

### Interest income

During the Reporting Period, net interest income of the Group amounted to RMB128.10 million, representing a year-on-year decrease of 21.91%. The Group's net interest income for 2016 consists of the following:

*Unit: in RMB million*

Items	2016	2015	Increase/ (decrease) compared to the previous year	Increase/ (decrease) compared to the previous year (%)
<b>Interest income</b>				
Deposit in financial institutions	<b>336.57</b>	329.20	7.37	2.24%
Margin financing and securities lending	<b>426.59</b>	548.40	(121.81)	(22.21%)
Financial assets held under resale agreements	<b>47.74</b>	40.13	7.61	18.96%
Others	<b>8.62</b>	1.06	7.56	713.21%
<b>Total interest income</b>	<b>819.52</b>	918.79	(99.27)	(10.80%)
<b>Interest expenses</b>	<b>691.42</b>	754.75	(63.33)	(8.39%)
<b>Net interest income</b>	<b>128.10</b>	164.04	(35.94)	(21.91%)

## Management Discussion and Analysis (Continued)

Interest income from deposits in financial institutions increased by RMB7.37 million or 2.24% year-on-year, primarily attributable to the increase in the interest income arising from the increase in the income from wealth management of proprietary assets of the Company.

Interest income from financial assets held under resale agreements increased by RMB7.61 million or 18.96% year-on-year, primarily attributable to the increase in interest income from government bonds reverse repo with idle funds of the Company.

Interest income from margin financing and securities lending decreased by RMB121.81 million or 22.21% year-on-year, primarily attributable to the decrease in size of margin financing and securities lending business.

Interest expenses decreased by RMB63.33 million or 8.39% year-on-year, primarily attributable to the decrease in the debt interest expenses caused by decreasing in the cost of debt financing of the Company.

## Management Discussion and Analysis (Continued)

### Net investment income

During the Reporting Period, net investment income of the Group amounted to RMB420.53 million, representing a year-on-year decrease of 70.81%, mainly attributable to the significant decrease in investment income from proprietary business of the Company caused by the impact of circuit breaker mechanism at the beginning of the year and deterioration of the entire market. The Group's net investment income for 2016 consist of the following:

*Unit: in RMB million*

Items	2016	2015	Increase/ (decrease) compared to the previous year	Increase/ (decrease) compared to the previous year (%)
<b>Net investment income</b>				
Net realised gains from disposal of available-for-sale financial assets	<b>139.04</b>	438.61	(299.57)	(68.30%)
Dividends income and interest income from available-for-sale financial assets	<b>13.75</b>	44.98	(31.23)	(69.43%)
Net gains from financial instruments at fair value through profit or loss	<b>218.02</b>	960.68	(742.66)	(77.31%)
Net gains/(losses) from derivative financial instruments	<b>20.92</b>	(3.74)	24.66	659.36%
Interest income from investments classified as receivable	<b>28.03</b>	–	28.03	N/A
Other	<b>0.77</b>	–	0.77	N/A
<b>Total</b>	<b>420.53</b>	1,440.53	(1,020.00)	(70.81%)

## Management Discussion and Analysis (Continued)

### Operating expenses

During the Reporting Period, operating expenses of the Group (excluding fees and commission expenses and interest expenses) amounted to RMB2,040.33 million, representing a year-on-year decrease of 16.32%. The Group's operating expenses primarily consist of the following:

*Unit: in RMB million*

Items	2016	2015	Increase/ (decrease) compared to the previous year	Increase/ (decrease) compared to the previous year (%)
Staff costs	<b>1,150.95</b>	1,384.20	(233.25)	(16.85%)
Depreciation and amortisations	<b>81.32</b>	63.74	17.58	27.58%
Other operating expenses and business tax and surcharges	<b>801.88</b>	963.55	(161.67)	(16.78%)
Impairment losses	<b>6.18</b>	26.65	(20.47)	(76.81%)
<b>Total</b>	<b>2,040.33</b>	2,438.14	(397.81)	(16.32%)

Staff costs decreased by RMB233.25 million or 16.85% year-on-year, primarily attributable to the decreasing business performance and bonus as a result of the impact on the business development of the Company caused by market fluctuation to a certain extent.

Depreciation and amortisation increased by RMB17.58 million or 27.58% year-on-year, primarily attributable to the depreciation or amortisation for the additional property and equipment and intangible assets.

Other operating expenses and business tax and surcharges decreased by RMB161.67 million or 16.78% year-on-year, primarily attributable to significant decrease in business tax and surcharges after the transition from business tax to value-added tax in the financial industry.

## Management Discussion and Analysis (Continued)

Impairment losses amounted to RMB6.18 million, representing a year-on-year decrease of RMB20.47 million. Details are as follows:

*Unit: in RMB million*

Items	2016	2015	Increase/ (decrease) compared to the previous year	Increase/ (decrease) compared to the previous year (%)
<b>Impairment losses</b>				
(Reversal of)/provision of margin financing and securities lending	<b>(5.68)</b>	8.53	(14.21)	(166.59%)
Provision of available-for-sale financial assets	<b>4.00</b>	16.00	(12.00)	(75.00%)
Provision/(reversal of) of financial assets held under resale agreements	<b>3.64</b>	(1.05)	4.69	446.67%
Provision of impairment losses against other current assets	<b>4.22</b>	3.17	1.05	33.12%
<b>Total</b>	<b>6.18</b>	26.65	(20.47)	(76.81%)

Impairment losses on assets primarily included provision for available-for-sale financial assets and provision for impairment of financial assets held under resale agreements. Among which, impairment losses on available-for-sale financial assets during the Reporting Period were RMB4.00 million. Impairment losses on financial assets held under resale agreements during the Reporting Period were RMB3.64 million. Reversal of provision of margin financing and securities lending business were RMB5.68 million during the Reporting Period according to the calculation of impairment provision for different risk exposures of margin financing and securities lending business.

## Management Discussion and Analysis (Continued)

### 2. Assets

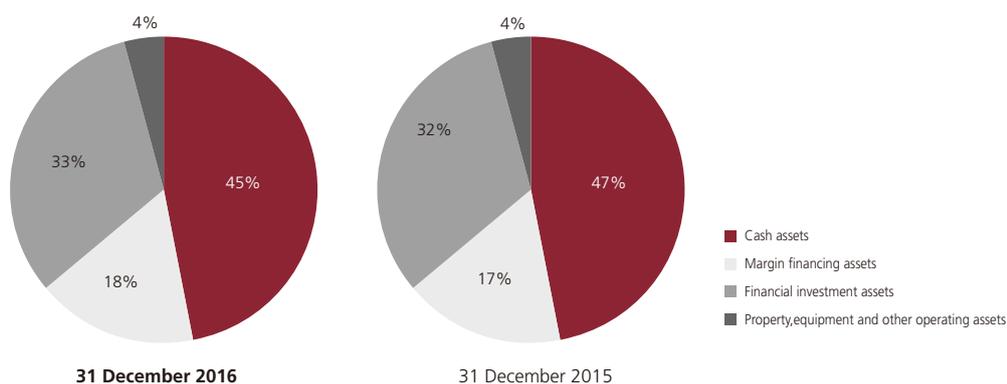
As at the end of the Reporting Period, total assets of the Group amounted to RMB37,148.60 million, representing a year-on-year decrease of 5.15%, of which, cash assets amounted to RMB16,730.78 million, representing a year-on-year decrease of 9.12%; margin financing assets amounted to RMB6,675.38 million, representing a year-on-year increase of 2.68%; financial investment assets amounted to RMB12,095.86 million, representing a year-on-year decrease of 4.2%; and property, equipment and other operating assets amounted to RMB1,646.58 million, representing a year-on-year increase of 0.93%. Changes in the total major assets of the Group are as follows:

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Total assets</b>				
Cash assets	<b>16,730.78</b>	18,409.19	(1,678.41)	(9.12%)
Margin financing assets	<b>6,675.38</b>	6,500.95	174.43	2.68%
Financial investment assets	<b>12,095.86</b>	12,626.10	(530.24)	(4.20%)
Property, equipment and other operating assets	<b>1,646.58</b>	1,631.43	15.15	0.93%
<b>Total</b>	<b>37,148.60</b>	39,167.67	(2,019.07)	(5.15%)

## Management Discussion and Analysis (Continued)

Total assets of the Group consist of:



### Cash assets

As at the end of Reporting Period, cash assets of the Group decreased by RMB1,678.41 million or 9.12% year-on-year, representing 45% 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	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Cash assets</b>				
Cash and bank balances (including cash held on behalf of brokerage clients)	<b>15,154.11</b>	16,665.23	(1,511.12)	(9.07%)
Clearing settlement funds	<b>1,109.95</b>	868.54	241.41	27.80%
Refundable deposits	<b>466.72</b>	875.42	(408.70)	(46.69%)
<b>Total</b>	<b>16,730.78</b>	18,409.19	(1,678.41)	(9.12%)

## Management Discussion and Analysis (Continued)

Changes in cash assets primarily reflected in cash and bank balances (including cash held on behalf of brokerage clients), which decreased by RMB1,511.12 million or 9.07%, mainly due to the decrease in client deposits of the Group this year.

### Margin financing assets

As at the end of the Reporting Period, margin financing assets of the Group increased by RM174.43 million or 2.68% year-on-year, representing 18% 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	Increase/ (decrease) for the reporting period compared to the corresponding period of last year	Increase/ (decrease) for the reporting period compared to the corresponding period of last year (%)
<b>Margin financing assets</b>				
Margin account receivables	<b>5,145.14</b>	6,217.33	(1,072.19)	(17.25%)
Financial assets held under resale agreements	<b>1,530.24</b>	283.62	1,246.62	439.54%
<b>Total</b>	<b>6,675.38</b>	6,500.95	174.43	2.68%

Margin account receivables amounted to RMB5,145.14 million, representing a year-on-year decrease of 17.25%. The decrease was primarily attributable to the significant decrease in the size of the Group's margin financing and securities lending business.

## Management Discussion and Analysis (Continued)

### Financial investment assets

As at the end of Reporting Period, financial investment assets of the Group decreased by RMB530.24 million or 4.2% year-on-year, representing 33% 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	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Financial investment assets</b>				
Investment in associates	7.96	10.00	(2.04)	(20.40%)
Available-for-sale financial assets	3,764.96	2,744.51	1,020.45	37.18%
Financial assets at fair value through profit or loss	8,322.94	9,871.59	(1,548.65)	(15.69%)
<b>Total</b>	<b>12,095.86</b>	12,626.10	(530.24)	(4.20%)

## Management Discussion and Analysis (Continued)

Available-for-sale financial assets: As at the end of the Reporting Period, the available-for-sale financial assets of the Group increased by RMB1,020.45 million or 37.18% year-on-year, representing 10% of the Group's total assets. The Group's available-for-sale financial assets consist of the following:

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Available-for-sale financial assets</b>				
Debt securities	<b>97.40</b>	213.09	(115.69)	(54.29%)
Equity securities	<b>1,715.06</b>	534.17	1,180.89	221.07%
Assets management schemes	<b>1,605.80</b>	1,940.42	(334.62)	(17.24%)
Investment funds	<b>346.70</b>	56.83	289.87	510.07%
<b>Total</b>	<b>3,764.96</b>	2,744.51	1,020.45	37.18%

## Management Discussion and Analysis (Continued)

Financial assets at fair value through profit or loss: As at the end of the Reporting Period, the financial assets at fair value through profit or loss of the Group decreased by RMB1,548.65 million or 15.69% year-on-year, representing 22% of the Group's total assets. The Group's financial assets at fair value through profit or loss consist of the following:

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Financial assets at fair value through profit or loss</b>				
Debt securities	<b>5,997.67</b>	7,172.29	(1,174.62)	(16.38%)
Equity securities	<b>497.69</b>	1,116.72	(619.03)	(55.43%)
Investment funds	<b>1,717.96</b>	1,369.05	348.91	25.49%
Asset management schemes	<b>1.01</b>	11.08	(10.07)	(90.88%)
Financial assets designated at fair value through profit or loss: debt securities	<b>108.61</b>	202.45	(93.84)	(46.35%)
<b>Total</b>	<b>8,322.94</b>	9,871.59	(1,548.65)	(15.69%)

## Management Discussion and Analysis (Continued)

### Property, equipment and other operating assets

As at the end of the Reporting Period, property, equipment and other operating assets of the Group amounted to RMB1,646.58 million, increased by RMB15.15 million or 0.93% year-on-year, representing 4% of the Group's total assets. The following table sets forth the composition of the Group's property, equipment and other operating assets:

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Property, equipment and other operating assets</b>				
Property and equipment and investment properties	529.17	465.40	63.77	13.70%
Goodwill	43.74	43.74	0.00	0.00%
Intangible assets	99.72	87.84	11.88	13.52%
Deferred tax assets	90.19	103.82	(13.63)	(13.13%)
Other current assets and other non-current assets	883.76	930.63	(46.87)	(5.04%)
<b>Total</b>	<b>1,646.58</b>	<b>1,631.43</b>	<b>15.15</b>	<b>0.93%</b>

## Management Discussion and Analysis (Continued)

### 3. Liabilities

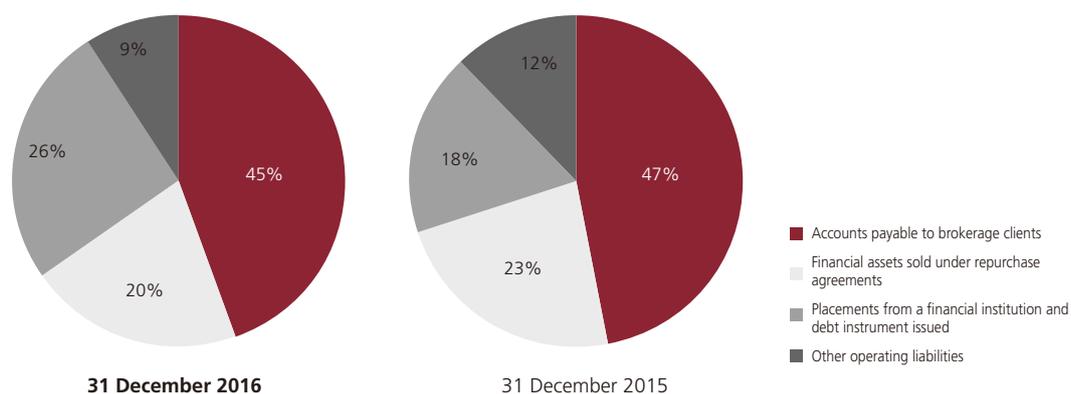
As at the end of the Reporting Period, total liabilities of the Group amounted to RMB27,212.39 million, representing a year-on-year decrease of RMB2,222.25 million or 7.55%. As at the end of the Reporting Period, accounts payable to brokerage clients amounted to RMB12,201.34 million, representing a year-on-year decrease of 12.71%. Financial assets sold under repurchase agreements amounted to RMB5,593.19 million, down by 16.93% year-on-year. The decrease was primarily attributable to the decrease in exchange quoted bond pledged repurchase business and decrease in transfer of rights and interests in margin financing and securities lending. Placements from a financial institution and debt instruments issued amounted to RMB7,072.62 million, up by 35.04% year-on-year. Major changes in the Group's total liabilities are as follows:

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Liabilities</b>				
Accounts payable to brokerage clients	<b>12,201.34</b>	13,977.56	(1,776.22)	(12.71%)
Financial assets sold under repurchase agreements	<b>5,593.19</b>	6,732.91	(1,139.72)	(16.93%)
Placements from a financial institution and debt instruments issued	<b>7,072.62</b>	5,237.55	1,835.07	35.04%
Other operating liabilities	<b>2,345.24</b>	3,486.62	(1,141.38)	(32.74%)
<b>Total</b>	<b>27,212.39</b>	29,434.64	(2,222.25)	(7.55%)

## Management Discussion and Analysis (Continued)

The Group's total liabilities consist of:



The Group does not have any overdue liability during the Reporting Period. For details on debt instruments issued, please refer to “V. Major Investment and Financing” under Section 5 “Management Discussion and Analysis” of this report.

Placements from a financial institution and debt instruments issued

Unit: in RMB million

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Placements from a financial institution and debt instruments issued</b>				
Placements from a financial institution	900.00	565.00	335.00	59.29%
Debt instruments issued	6,172.62	4,672.55	1,500.07	32.10%
<b>Total</b>	<b>7,072.62</b>	<b>5,237.55</b>	<b>1,835.07</b>	<b>35.04%</b>

## Management Discussion and Analysis (Continued)

Placements from a financial institution amounted to RMB900 million, increased by 59.29% year-on-year. The increase was primarily attributable to the increase in such business from China Securities Finance Corporation Limited in order to satisfying the liquidity management demand of the Company.

Debt instruments issued, which primarily included outstanding corporate bonds and beneficiary certificates issued by the Group, increased by RMB1,500.07 million year-on-year.

Other operating liabilities

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
<b>Other operating liabilities</b>				
Employee benefits payable	515.35	749.44	(234.09)	(31.24%)
Deferred revenue	8.09	2.47	5.62	227.53%
Other liabilities	1,820.46	2,698.03	(877.57)	(32.53%)
Deferred tax liabilities	1.34	14.40	(13.06)	(90.69%)
Financial liabilities at fair value through profit or loss	-	22.28	(22.28)	(100%)
<b>Total</b>	<b>2,345.24</b>	<b>3,486.62</b>	<b>(1,141.38)</b>	<b>(32.74%)</b>

Employee benefits payable decreased by RMB234.09 million or 31.24% year-on-year, primarily attributable to the decrease in Group's revenue and profit, which was attributable to decrease in staff costs due to worse operating results and decreased provision for bonus.

## Management Discussion and Analysis (Continued)

Other liabilities decreased by RMB877.57 million, representing a year-on-year decrease of 32.53% primarily attributable to decrease in payables to other investors of consolidated structure entities.

#### 4. Equity

As at the end of the Reporting Period, total equity of the Group amounted to RMB9,936.21 million, up by 2.09% year-on-year. The increase was primarily attributable to increase in the Company's profits. The following table sets forth the composition of the Group's equity:

*Unit: in RMB million*

Items	31 December 2016	31 December 2015	Increase/ (decrease) as at the end of the reporting period compared to the end of last year	Increase/ (decrease) as at the end of the reporting period compared to the end of last year (%)
Share capital	<b>2,604.57</b>	2,604.57	0.00	0.00%
Share premium	<b>1,665.24</b>	1,661.24	4.00	0.24%
Perpetual capital securities	<b>1,500.00</b>	1,500.00	0.00	0.00%
Reserves	<b>3,891.16</b>	3,765.87	125.29	3.33%
Non-controlling interests	<b>275.24</b>	201.35	73.89	36.70%
<b>Total</b>	<b>9,936.21</b>	9,733.03	203.18	2.09%

## Management Discussion and Analysis (Continued)

### 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.

The Group has five principal business lines: (i) brokerage and wealth management, (ii) investment banking, (iii) proprietary trading, (iv) investment management and (v) others. The following discussions of the Group's segment revenue and other income, segment expenses and segment results include the Group's intersegment revenue and intersegment expenses.

The following table sets forth the Group's segment revenue and other income (including intersegment revenue) for the years indicated:

*Unit: in RMB million*

Items	2016		2015	
	Amount	%	Amount	%
Brokerage and wealth management	<b>1,839.42</b>	<b>51.94%</b>	3,237.90	57.04%
Investment banking	<b>450.67</b>	<b>12.73%</b>	288.83	5.09%
Proprietary trading	<b>202.21</b>	<b>5.71%</b>	1,019.09	17.95%
Investment management	<b>976.80</b>	<b>27.58%</b>	999.95	17.62%
Others	<b>72.06</b>	<b>2.04%</b>	130.42	2.30%
<b>Total</b>	<b>3,541.16</b>	<b>100.00%</b>	5,676.19	100.00%

## Management Discussion and Analysis (Continued)

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

Unit: in RMB million

Items	2016		2015	
	Amount	%	Amount	%
Brokerage and wealth management	<b>1,410.78</b>	<b>48.69%</b>	1,946.04	55.71%
Investment banking	<b>330.99</b>	<b>11.42%</b>	220.31	6.31%
Proprietary trading	<b>287.57</b>	<b>9.93%</b>	205.40	5.88%
Investment management	<b>691.31</b>	<b>23.86%</b>	703.95	20.15%
Others	<b>176.81</b>	<b>6.10%</b>	417.69	11.95%
<b>Total</b>	<b>2,897.46</b>	<b>100.00%</b>	<b>3,493.39</b>	<b>100.00%</b>

The following table sets forth the Group's segment operating profits/(losses) (including inter-segment profits) for the years indicated:

Unit: in RMB million

Items	2016		2015	
	Amount	%	Amount	%
Brokerage and wealth management	<b>428.64</b>	<b>66.59%</b>	1,291.86	59.18%
Investment banking	<b>119.68</b>	<b>18.59%</b>	68.52	3.14%
Proprietary trading	<b>(85.36)</b>	<b>(13.26%)</b>	813.69	37.28%
Investment management	<b>285.49</b>	<b>44.35%</b>	296.00	13.56%
Others	<b>(104.75)</b>	<b>(16.27%)</b>	(287.27)	(13.16%)
<b>Total</b>	<b>643.70</b>	<b>100.00%</b>	<b>2,182.80</b>	<b>100.00%</b>

## Management Discussion and Analysis (Continued)

### (VIII) Contingent liability, capital commitment and other commitment

Please refer to Note 54 of the consolidated financial statements in this report for particulars of contingent liability.

Please refer to Note 52 of the consolidated financial statement in this report for particulars of capital commitment and other commitment.

As at 31 December 2016, the Group did not have any security over its assets.

## IV. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

### (I) Branches of the Company

#### 1. Establishment of new securities branches and changes in securities branches

##### (1) Newly-established securities branches

During the Reporting Period, the Company set up 24 new securities branches according to the Approval of Establishment of Forty-two Securities Branches by Hengtai Securities Co., Ltd (Nei Zheng Jian Xu Ke [2015] No. 16) (《關於核准恒泰證券股份有限公司設立42家證券營業部的批覆》(內證監許可[2015]16號)), issued by the Inner Mongolia Securities Regulatory Bureau of CSRC (中國證監會內蒙古監管局).

## Management Discussion and Analysis (Continued)

The details of which are as follows:

No.	Name of securities branch	Region (PRC)
1	Hengtai Securities Co., Ltd Shaoxing Shengli Road Securities Branch (恒泰證券股份有限公司紹興勝利路證券營業部)	Shaoxing, Zhejiang
2	Hengtai Securities Co., Ltd Huizhou Bailuhu Securities Branch (恒泰證券股份有限公司惠州白鷺湖證券營業部)	Huizhou, Guangdong
3	Hengtai Securities Co., Ltd Tianjin Hedong Shiyijing Road Securities Branch (恒泰證券股份有限公司天津河東十一經路證券營業部)	Tianjin
4	Hengtai Securities Co., Ltd Shenzhen Wenjing Road Securities Branch (恒泰證券股份有限公司深圳文錦路證券營業部)	Shenzhen, Guangdong
5	Hengtai Securities Co., Ltd Changsha Jinxing Road Securities Branch (恒泰證券股份有限公司長沙金星路證券營業部)	Changsha, Hunan
6	Hengtai Securities Co., Ltd Shanghai Xinjinqiao Road Securities Branch (恒泰證券股份有限公司上海新金橋路證券營業部)	Shanghai
7	Hengtai Securities Co., Ltd Shanghai Jiangning Road Securities Branch (恒泰證券股份有限公司上海江寧路證券營業部)	Shanghai
8	Hengtai Securities Co., Ltd Shenzhen Qianhai Securities Branch (恒泰證券股份有限公司深圳前海證券營業部)	Shenzhen, Guangdong
9	Hengtai Securities Co., Ltd Shangyu Civic Blvd Securities Branch (恒泰證券股份有限公司上虞市民大道證券營業部)	Shaoxing, Zhejiang
10	Hengtai Securities Co., Ltd Zhengzhou Nanyang Road Securities Branch (恒泰證券股份有限公司鄭州南陽路證券營業部)	Zhengzhou, Henan
11	Hengtai Securities Co., Ltd Linyi Fuqian Road Securities Branch (恒泰證券股份有限公司臨沂府前路證券營業部)	Linyi, Shandong
12	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰證券股份有限公司大連會展路證券營業部)	Dalian, Liaoning

## Management Discussion and Analysis (Continued)

No.	Name of securities branch	Region (PRC)
13	Hengtai Securities Co., Ltd Xi'an Qujiangchi North Road Securities Branch (恒泰證券股份有限公司西安曲江池北路證券營業部)	Xi'an, Shaanxi
14	Hengtai Securities Co., Ltd Shenzhen Xianglin Road Securities Branch (恒泰證券股份有限公司深圳香林路證券營業部)	Shenzhen, Guangdong
15	Hengtai Securities Co., Ltd Dongguan Humen Town Humen Blvd Securities Branch (恒泰證券股份有限公司東莞虎門鎮虎門大道證券營業部)	Dongguan, Guangdong
16	Hengtai Securities Co., Ltd Xianyou 825 Street Securities Branch (恒泰證券股份有限公司仙游八二五大街證券營業部)	Xianyou, Fujian
17	Hengtai Securities Co., Ltd Zibo Jinjing Road Securities Branch (恒泰證券股份有限公司淄博金晶路證券營業部)	Zibo, Shandong
18	Hengtai Securities Co., Ltd Shenzhen Gaoxinnan No. 1 Road Securities Branch (恒泰證券股份有限公司深圳高新南一道證券營業部)	Shenzhen, Guangdong
19	Hengtai Securities Co., Ltd Wenzhou Haichuan Road Securities Branch (恒泰證券股份有限公司溫州海川路證券營業部)	Wenzhou, Zhejiang
20	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰證券股份有限公司北京建材城西路證券營業部)	Beijing
21	Hengtai Securities Co., Ltd Fuzhou North Ring Middle Road Securities Branch (恒泰證券股份有限公司福州北環中路證券營業部)	Fuzhou, Fujian
22	Hengtai Securities Co., Ltd Guangzhou Tianhe North Road Securities Branch (恒泰證券股份有限公司廣州天河北路證券營業部)	Guangzhou, Guangdong
23	Hengtai Securities Co., Ltd Shenzhen Longxiang Blvd Securities Branch (恒泰證券股份有限公司深圳龍翔大道證券營業部)	Shenzhen, Guangdong
24	Hengtai Securities Co., Ltd Beijing Qingnian Road Securities Branch (恒泰證券股份有限公司北京青年路證券營業部)	Beijing

## Management Discussion and Analysis (Continued)

### (2) Relocation of securities branches

During the Reporting Period, 12 securities branches of the Company were relocated, details of which are as follows:

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
1	Hengtai Securities Co., Ltd Baotou Wulan Road Securities Branch (恒泰證券股份有限公司包頭烏蘭道證券營業部)	Hengtai Securities Co., Ltd Baotou Youyi Street Securities Branch (恒泰證券股份有限公司包頭友誼大街證券營業部)	No. 126 Culture Creativity Park, No. 67 Youyi Street, Qingshan District, Baotou, Inner Mongolia (內蒙古自治區包頭市青山區友誼大街67號文化創意園-126號)
2	Hengtai Securities Co., Ltd Beijing Ande Road Securities Branch (恒泰證券股份有限公司北京安德路證券營業部)	Hengtai Securities Co., Ltd Beijing Dongzhimennei North Alley Securities Branch (恒泰證券股份有限公司北京東直門內北小街證券營業部)	Rooms 101 & 201, Building No. 14 & No. 18, North Alley, Dongzhimennei, Dongcheng District, Beijing (北京市東城區東直門內北小街14、18號樓101、201號)
3	Hengtai Securities Co., Ltd Baotou Salaqi Daxi Street Securities Branch (恒泰證券股份有限公司包頭薩拉齊大街證券營業部)	Hengtai Securities Co., Ltd Baotou Salaqi Zhenhua Street Securities Branch (恒泰證券股份有限公司包頭薩拉齊振華大街證券營業部)	Shop No. 4, Main Tower of Tumed Right Hotel, Tumed Right Banner, Baotou, Inner Mongolia Autonomous Region (內蒙古自治區包頭市土默特右旗振華大街土右賓館主樓4號底店)
4	Hengtai Securities Co., Ltd Shanghai Hongqiao Road Securities Branch (恒泰證券股份有限公司上海虹橋路證券營業部)	Hengtai Securities Co., Ltd Shanghai Chengshan Road Securities Branch (恒泰證券股份有限公司上海成山路證券營業部)	Third floor in odd number, 2469-2471 Chengshan Road, Pudong New District, Shanghai (上海市浦東新區成山路2469-2471單號第三層)
5	Hengtai Securities Co., Ltd Shanghai Gushan Road Securities Branch (恒泰證券股份有限公司上海崑崙山路證券營業部)	Hengtai Securities Co., Ltd Shanghai Boshan Road Securities Branch (恒泰證券股份有限公司上海博山路證券營業部)	Room 109 B and C, No. 6, Lane 202, Boshan Road, China (Shanghai) Free Trade Pilot Zone(中國(上海)自由貿易試驗區博山路202弄6號109B、C室)
6	Hengtai Securities Co., Ltd Erdos Xuejiawan Zhungeer Road Securities Branch (恒泰證券股份有限公司鄂爾多斯薛家灣准格爾路證券營業部) <sup>1</sup>	Hengtai Securities Co., Ltd Erdos Xuejiawan Zhungeer Road Securities Branch (恒泰證券股份有限公司鄂爾多斯薛家灣准格爾路證券營業部)	2/F of Donghua commercial and residential building, east of power supply bureau, South of Zhungeer Road, Zhungeerqi Xinglong Street, Inner Mongolia Autonomous Region (內蒙古自治區准格爾旗興隆街道准格爾路南供電局東華商住樓二樓)
7	Hengtai Securities Co., Ltd Shanghai Xiaomuqiao Road Securities Branch (恒泰證券股份有限公司上海小木橋路營業部) <sup>1</sup>	Hengtai Securities Co., Ltd Shanghai Xiaomuqiao Road Securities Branch (恒泰證券股份有限公司上海小木橋路營業部)	Room 1001, 1002, 1003 & 1004, No. 251 Xiaomuqiao Road, Xuhui District, Shanghai (上海市徐匯區小木橋路251號1001、1002、1003、1004室)
8	Hengtai Securities Co., Ltd Hangzhou Fengqi Road Securities Branch (恒泰證券股份有限公司杭州鳳起路證券營業部) <sup>1</sup>	Hengtai Securities Co., Ltd Hangzhou Fengqi Road Securities Branch (恒泰證券股份有限公司杭州鳳起路證券營業部)	Block A-J, Room 801, No. 96 Fengqi Road, Xiacheng District, Hangzhou, Zhejiang (浙江省杭州市下城區鳳起路96號801室A-J座)

## Management Discussion and Analysis (Continued)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
9	Hengtai Securities Co., Ltd Tsingtao Alishan Road Securities Branch (恒泰證券股份有限公司青島阿里山路證券營業部)	Hengtai Securities Co., Ltd Tsingtao Yanerdao Road Securities Branch (恒泰證券股份有限公司青島燕兒島路證券營業部)	No. A-9, No. 7 Yanerdao Road, Shinan District, Tsingtao, Shandong (山東省青島市市南區燕兒島路7號甲-9號)
10	Hengtai Securities Co., Ltd Changchun Renmin Street Securities Branch (恒泰證券股份有限公司長春人民大街證券營業部)	Hengtai Securities Co., Ltd Changchun Xi'an Blvd Securities Branch (恒泰證券股份有限公司長春西安大路證券營業部)	15/F, No. 1077 Xi'an Blvd, Chaoyang District, Changchun, Jilin (吉林省長春市朝陽區西安大路1077號15層)
11	Hengtai Securities Co., Ltd Qianguo Hasaer Road Securities Branch (恒泰證券股份有限公司前郭哈薩爾路證券營業部) <sup>1</sup>	Hengtai Securities Co., Ltd Qianguo Hasaer Road Securities Branch (恒泰證券股份有限公司前郭哈薩爾路證券營業部)	Shops on 2/F, No.18 & No.19 Zongshe Shangqi, Jinzuo Estate, Wenzhiwei District Hasaer, Qianguo County, Jilin (吉林省前郭縣哈薩爾文治委金座綜合舍商企18、19二層商舖)
12	Hengtai Securities Co., Ltd Changchun Zhujiang Road Securities Branch (恒泰證券股份有限公司長春珠江路證券營業部)	Hengtai Securities Co., Ltd Changchun Renmin Street Redbuds Securities Branch (恒泰證券股份有限公司長春人民大街紫荊花證券營業部)	Southern Zone, 15/F, Redbuds Hotel, No. 5688 Renmin Street, Nanguan District, Changchun, Jilin (吉林省長春市南關區人民大街5688號紫荊花飯店十五層南區)

*Note 1:* Name of the securities branch remained unchanged after relocation.

### (3) Deregistration of securities branches

During the Reporting Period, 2 securities branches of the Company completed deregistration due to optimisation of distribution of securities branches, details of which are as follows:

No.	Name of securities branch	Region (PRC)
1	Hengtai Securities Co., Ltd Tongliao Agula Street Securities Branch (恒泰證券股份有限公司通遼阿古拉大街證券營業部)	Tongliao, Inner Mongolia
2	Hengtai Securities Co., Ltd. Yanji, Juzi Street Securities Branch (恒泰證券股份有限公司延吉局子街證券營業部)	Yanji, Jilin

### 2. Establishment of new branch offices and changes in branch offices

Nil.

## Management Discussion and Analysis (Continued)

### (II) Subsidiaries of the Company

During the Reporting Period, changes in the Company's major subsidiaries are as follows:

1. Hengtai Capital increased its registered capital from RMB0.2 billion to RMB1 billion, with RMB0.8 billion contributed by the Company, and completed the change of business registration for such registered capital increase on 29 January 2016.

Hengtai Capital contributed RMB10 million to increase the registered capital of Shenzhen Hengtai Capital Equity Investment Fund Management Co., Ltd. (深圳恒泰資本股權投資基金管理有限責任公司), one of its wholly-owned subsidiaries. Upon completion of such registered capital increase, the registered capital of Shenzhen Hengtai Capital Equity Investment Fund Management Co., Ltd. was increased from RMB10 million to RMB20 million. On 17 May 2016, such company completed the change of business registration for such registered capital increase.

Hengtai Capital acquired 100% equity interest in Shanghai Yingwo Investment Management Co., Ltd. (上海盈沃投資管理有限公司) from Hengtai Pioneer on 6 September 2016.

Hengtai Capital increased its registered capital from RMB1.0 billion to RMB1.5 billion, with RMB0.5 billion contributed by the Company (the amount of capital increase will be settled by installments by the Company, and of which RMB0.2 billion has been paid by the Company as at 31 December 2016), and completed the change of business registration for such registered capital increase on 10 November 2016.

Hengtai Capital established a 51%-controlled subsidiary, Shenzhen Hengtai Xihe Equity Investment Fund Management Co., Ltd. (深圳恒泰羲和股權投資基金管理有限公司). The registered capital of Shenzhen Hengtai Xihe Equity Investment Fund Management Co., Ltd. was RMB10 million. It obtained the enterprise business license on 14 November 2016 and is mainly engaged in investment consultation, investment management, entrusted management of equity investment funds and equity investment in unlisted enterprises.

## Management Discussion and Analysis (Continued)

2. Hengtai Futures established a wholly-owned subsidiary, Hengtai Yingwo Asset Management Co., Ltd. (恒泰盈沃資產管理有限公司) with a registered capital of RMB50 million. It obtained the enterprise business license on 5 February 2016 and is mainly engaged in asset management, investment management, industry investment, venture capital investment, investment consultation, corporate management service, financial consultation, planning of corporate asset reorganisation and merger and acquisition, marketing planning and business information consultancy.
3. Hengtai Pioneer contributed RMB10 million to increase the registered capital of Shanghai Yingwo Investment Management Co., Ltd. (上海盈沃投資管理有限公司), one of its wholly-owned subsidiaries. Upon completion of such capital increase, the registered capital of Shanghai Yingwo Investment Management Co., Ltd. was increased from RMB10 million to RMB20 million. On 27 June 2016, such company completed the change of business registration for such registered capital increase.

Hengtai Pioneer transferred 100% equity interest held by it in Shanghai Yingwo Investment Management Co., Ltd. to Hengtai Capital on 6 September 2016.

4. Due to business development requirements, Shenzhen New China Fushi Asset Management Co., Ltd. (深圳新華富時資產管理有限公司), a controlled subsidiary of New China Fund, was relocated to Beijing on 29 June 2016 and changed its name to Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司).

By virtue of transfer of undistributed profit into share capital, the registered capital of Beijing New China Fushi Asset Management Co., Ltd. was increased from RMB50 million to RMB90 million. On 26 December 2016, such company completed the change of business registration for such registered capital increase.

## Management Discussion and Analysis (Continued)

### (III) Impact on results

During the Reporting Period, the Company has established 24 new securities branches which generated an aggregate of RMB25.79 million of revenue and other income and RMB-11.37 million of operating profits in total having limited impact on the results of the Company for the year.

Hengtai Capital was supplemented with working capital by the capital increases in January 2016 and November 2016. It served as the platform for management of merger and acquisition and private equity investment, and was able to grasp market opportunities, seek for better business development opportunities and strengthen its own competitive edge, which further promoted the sound, rapid and sustained development of all businesses of Hengtai Capital.

Hengtai Capital made a capital contribution to its wholly-owned subsidiary Shenzhen Hengtai Capital Equity Investment Fund Management Co., Ltd. (深圳恒泰資本股權投資基金管理有限責任公司) to provide financial support for the company's business development. Hengtai Capital acquired 100% equity interest in Shanghai Yingwo Investment Management Co., Ltd. (上海盈沃投資管理有限公司) from Hengtai Pioneer. Shanghai Yingwo Investment Management Co., Ltd. will complete the strategic adjustment of business transformation and build a new business team mainly for carrying out buyout fund businesses, while the original asset management business will no longer be operated. Shenzhen Hengtai Xihe Equity Investment Fund Management Co., Ltd. (深圳恒泰羲和股權投資基金管理有限責任公司), a controlled subsidiary of Hengtai Capital, has limited impact on the results of the Company as it is still in its early stage and has not been fully put into operation during 2016.

Upon establishment of Hengtai Yingwo Asset Management Co., Ltd. (恒泰盈沃資產管理有限公司), a wholly-owned subsidiary of Hengtai Futures, the asset management business of Hengtai Futures was operated with its subsidiary as a platform. The business competitiveness was continuously enhanced by expanding the scope of business and developing proprietary products.

Due to business development, Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司), a subsidiary of New China Fund, was required and moved to Beijing, and it also increased its registered capital by way of capitalising undistributed profits into share capital, which provided guarantee for further development of its business and improvement of its corporate competitiveness.

# Management Discussion and Analysis (Continued)

## V. MAJOR INVESTMENT AND FINANCING

### (I) Equity financing

None.

### (II) Major debt financing

#### 1. Issue of long-term corporate bonds

On 29 September 2015, the Company obtained the Approval for Issue of Bonds by Hengtai Securities Co., Ltd. (Zheng Jian Xu Ke [2015] No. 2213) (《關於核准恒泰證券股份有限公司發行債券的批覆》(證監許可[2015]2213號)) issued by the CSRC, approving the Company to issue public corporate bonds of not more than RMB1.5 billion, which had been listed on the Shanghai Stock Exchange on 1 March 2016, particulars of which are as follows:

Name	Size of the issuance (RMB'00 million)	Interest rate	Term (day)	Date of issuance	Expiry date
14 恒泰05 (136215)	15	3.42%	1,095	29 January 2016	29 January 2019

#### 2. Issue of short-term corporate bonds

In 2016, the Company issued one tranche of short-term corporate bonds, raising RMB0.3 billion in aggregate. As at 31 December 2016, the outstanding balance of short-term corporate bonds amounted to RMB0.3 billion. The particulars of the issuance of short-term corporate bonds of the Company in 2016 are set out below:

Name	Size of the issuance (RMB'00 million)	Interest rate	Term (day)	Issue Date	Expiry date
恒泰短債D3	3	3.70%	365	14 September 2016	14 September 2017

## Management Discussion and Analysis (Continued)

### 3. Issue of beneficiary certificates

The Company raised an aggregate of RMB2.5 billion through issue of beneficiary certificates in 2016. As at 31 December 2016, the amount of outstanding beneficiary certificates amounted to RMB2,832.624 million (including the outstanding beneficiary certificates issued by the Company in 2015). The particulars of the issuance of beneficiary certificates of the Company in 2016 are set out below:

<b>Abbreviation</b>	<b>Size of the issuance</b> <i>(RMB'00 million)</i>	<b>Interest rate</b>	<b>Term</b> <i>(day)</i>	<b>Issue Date</b>	<b>Expiry date</b>
恒創泰富1號	5	3.50%	182	12 September 2016	13 March 2017
恒創泰富2號	5	3.60%	182	14 September 2016	15 March 2017
恒創泰富3號	5	3.70%	365	17 November 2016	17 November 2017
恒創泰富4號	5	3.80%	364	18 November 2016	17 November 2017
恒創泰富5號	5	3.80%	365	23 November 2016	23 November 2017

### 4. Issue of subordinated bonds by the Company

No subordinated bonds was issued by the Company in 2016. As at 31 December 2016, the capital of the principal amount of outstanding subordinated bonds amounted to RMB1.5 billion (represented the outstanding subordinated bonds issued by the Company in 2014 and 2015).

## Management Discussion and Analysis (Continued)

In 2016, Hengtai Futures, a subsidiary of the Company, issued subordinated bonds, raising RMB0.04 billion in aggregate. The particulars of the issuance of subordinated bonds of Hengtai Futures in 2016 are set out below:

<b>Name</b>	<b>Size of the issuance</b> <i>(RMB'00 million)</i>	<b>Interest rate</b>	<b>Term</b> <i>(day)</i>	<b>Issue Date</b>	<b>Expiry date</b>
恒泰期貨股份有限 公司次級債	0.4	6.00%	1,460	15 August 2016	15 August 2020

### (III) Equity Investment

- On 14 January 2016, the resolution in Relation to Capital Increase of the Wholly-owned Subsidiary, Hengtai Capital Investment Co., Ltd., was considered and approved at the 29th extraordinary meeting of the third session of the Board, pursuant to which, the Company agreed to make registered capital increase of RMB800 million in its wholly-owned subsidiary, Hengtai Capital. Upon the completion of such registered capital increase, the registered capital of Hengtai Capital was increased from RMB200 million to RMB1,000 million. On 29 January 2016, Hengtai Capital completed the change of business registration for such registered capital increase.
- On 18 October 2016, the resolution in Relation to Capital Increase of RMB500 million in the Wholly-owned Subsidiary, Hengtai Capital, was considered and approved at the 39th extraordinary meeting of the third session of the Board, pursuant to which, the Company agreed to make registered capital increase of RMB500 million in its wholly-owned subsidiary, Hengtai Capital. Upon the completion of such registered capital increase, the registered capital of Hengtai Capital was increased from RMB1,000 million to RMB1,500 million. On 10 November 2016, Hengtai Capital completed the change of business registration for such registered capital increase.

### VI. MAJOR DISPOSAL, ACQUISITION, REPLACEMENT AND SPINOFF OF ASSETS AND REORGANISATION OF OTHER COMPANIES

Save for the matters stated in IV and V under the above Section 5 “Management Discussion and Analysis”, the Company had no matters concerning major disposal, acquisition, replacement and spin-off of assets and reorganisation of other companies during the Reporting Period.

### VII. BUSINESS INNOVATION AND ITS IMPACT AND RISK CONTROL

#### (I) Business innovation and its impact

In 2016, the Company insisted on promoting transformation with innovation and continued to advance the innovation of all businesses:

The Company continued to implement the Internet financial strategy of “openness and connection” to satisfy customers’ diversified financial demands and advance the construction of investment and wealth management platform, and further enriched the functions of platform and wealth management products, striving to improve customer experience. On 16 December 2016, at the 2016 Summit for Internet and Finance Industries sponsored by Shenzhen Kingwelan Technology Co., Ltd. (深圳金微藍技術有限公司), the Company was awarded the 2016 Award for Best Innovation in Respect of Internet and Finance (最佳互聯網金融創新獎).

In respect of asset securitisation, on 19 August 2016, “Beijing Yintai Centre Special Asset Support Program (北京銀泰中心資產支持專項計劃)” was established with the Company as the manager and sales organisation and China Minsheng Bank as the regulatory bank and custodian. The project size is up to RMB7.5 billion, being the first mortgage type REITs project in the PRC.

In 2016, given the shrinkage of market size, the Company proactively took measures in terms of business and risk management and achieved substantial increase in the size of securities pledged repurchase business of 303.41% as compared to the end of 2015.

## Management Discussion and Analysis (Continued)

### (II) Risk control of business innovation

In 2016, the Company continuously improved the professional management of compliance and risk control, providing strong guarantee for the business innovation of the Company. The Company consistently updated and improved internal control mechanisms of its business innovation such as management systems, organisational structure, information technology systems and risk control measures to ensure thorough risk management and internal control in respect of its various business innovations.

The Company has developed annual risk preference strategy based on its business development, and set multi-level risk control indicators and risk limit management system. The risk identification, assessment, monitoring and control mechanisms have been established and improved in terms of credit risk, market risk, liquidity risk and operating risk to improve the Company's risk management.

The Company exerted more efforts for process management as well as the prior, in-progress and subsequent risk control for business innovation. Innovative business departments and compliance risk control departments jointly analysed and verified the significance, feasibility, business characteristics, profit model and process risk control indicators, and conducted sufficient pressure test to ensure effectiveness of risk control from the respects of process and system and that all relevant risks of innovative businesses were measurable, controllable and tolerable.

### (III) Prospects

The Company is convinced that the Company's competitiveness in the market can only be effectively strengthened by continuous innovation and accelerated transformation, so as to achieve rapid development. In 2017, the Company will further proceed with innovation and transformation for businesses in the following aspects on the basis of reinforcing compliance management and internal control and prevention of risks:

1. For Internet financial business, platform construction will be comprehensively conducted in four aspects, i.e. optimising diversion channel, overcoming operation shortcomings, enriching online products and improving offline services, to build an Internet financial platform which centers on customer demand, stresses Internet-based business processes, and will be based on flat operation and management and supported by information technology system.

## Management Discussion and Analysis (Continued)

2. For investment banking business, further efforts will be exerted to improve the team's comprehensive strength. In light of the fierce competition in respect of project contracting of traditional businesses, the Company will increase its input in prospective study on varieties of emerging businesses, to proactively enrich product mix, and boost business transformation and innovation.
3. For asset custody business, the Company will proactively develop large fund managers and the focus of its business layout will be placed on economically developed regions. It will further develop institutional customers including financial institutions, and expand business cooperation channels to strengthen cooperation with institutions.
4. The application for establishment of a subsidiary in Hong Kong will be proactively promoted to speed up the institution establishment and obtaining of necessary licenses in Hong Kong, to realise operation in the interconnected market as soon as possible and propel the development of international business.
5. For asset securitisation business, the cooperation with institutions will be further consolidated. While continuously improving professional capacities in respect of REITS and other fields, the Company will conduct innovation in respect of the business model in combination of investment and financing and purchase and sales to achieve innovative transformation of business model and consolidate its leading position in the industry.

## Management Discussion and Analysis (Continued)

### VIII. RISK FACTORS AND COUNTERMEASURES

#### (I) Credit Risk

Credit risk refers to risk arising from a borrower or counterparty's failure to pay back debts as agreed in a timely manner. Credit risk of the Company is mainly generated from two aspects: (i) credit risk from financing business such as margin financing and securities lending and securities-backed lending, namely, risks of losses from failure to perform duties as agreed by customers; and (ii) credit risk from credit product investment, namely, asset losses and changes in gains due to default or refusal to pay back principal and interests by the financier or issuer of the credit products.

Credit risk from financing activities can be controlled by (i) credit investigations through internal credit rating system to determine credit lines for relevant customers, as well as customer education, daily mark to market, risk reminders to clients and forced liquidation of client's positions; and (ii) conducting due diligence prior to approval of the projects, providing suggestions on risk control over key risks inherent in the project and maintaining constant risk monitoring over projects in performance to address problems once detected. Credit risks from credit product investment can be controlled by establishing pool access standards and caps of investment categories.

In addition, the Company conducts stress test from time to time to define risk exposure of its credit business.

#### (II) Market risk

Market risk refers to the possibility of losses or reduced income due to overall or partial changes in the market. It consists of risk of price fluctuations of equity assets, interest risk and exchange rate risk. Risk of price fluctuations refers to the risk that the stock market may fluctuate and cause the prices of stocks and other securities products to change, which may incur losses to the Company. Interest risk refers to the risk arising from changes in market interest rates. Exchange rate risk refers to the possibility that the Company may incur losses due to changes in exchange rates during operating activities involving possession or use of foreign exchanges. The Company pays close attention to the foreign exchange market to study such market and make rational decisions. As a result, the changes in exchange rates only have a small impact on the Company. The Company has established a market management risk control system featured with regime, system, authorisation mechanism, monitoring and reporting.

## Management Discussion and Analysis (Continued)

Regime: the Company formulated corresponding risk management regime over market risk management and market risk indicator monitoring. Besides, it established risk management rules over different business categories, mainly including market risk identification, assessment and monitoring.

System: the market risk management information system of the Company has been launched, which can monitor, calculate and analyse market risks.

Authorisation mechanism: the Company has established a decision-making and authorisation system with different authority levels having different investment authorisation limits.

Monitoring and reporting: risk management department of the Company is in charge of monitoring the risk exposure of relevant business lines and sending risk warning to relevant business departments, and reporting to the Company's chief risk officer, risk management special committee and the Board when necessary; and the business department shall report the proposed risk response measures to the risk management department within time limits.

### **(III) Liquidity risk**

Liquidity risk refers to the risk where the Company fails to obtain sufficient funds in time at reasonable costs in order to repay mature debts, fulfil other payment obligations and satisfy the funding needs for carrying on normal business. To minimise liquidity risk, the Company monitors the liquidity risk control indicator and conducts semi-annual liquidity risk stress tests to analyse the Company's ability to withstand short-term and long-term liquidity pressure. The Company monitors and analyses the matching of its assets and liabilities from various time periods under both normal and stressed situations, the diversification and stability of its capital resources, high-quality liquid assets and market liquidity and, at the same time, strengthens the liquidity management in the course of business operation and conducts fundraising activities in a timely manner to maintain adequate daily liquidity position. The Company establishes emergency plans for liquidity risks, taking into consideration its business scale, nature, complexity and risk levels and results from stress tests, to ensure the Company is able to meet liquidity requirements under emergencies circumstances.

## Management Discussion and Analysis (Continued)

### **(IV) Compliance risk**

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, self-discipline penalties and loss of property or reputation because the business activities or employee conduct violate laws, regulations or rules. The Company has established an effective and sound compliance risk management system and compliance management organisational system. In order to promote the compliance management of the securities industry, the Company has set up the legal and compliance department at an early stage, which has been actively exploring various models of compliance management and conducting effective management through compliance review, monitoring, examination, supervision and training. In addition, the Company has formulated and implemented comprehensive procedures for responding to and settling complaints and disputes. The Company has also established internal policies on engagement of external attorneys in the course of our operation or dealing with disputes and legal proceedings when necessary.

### **(V) Operational Risk**

Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system, mainly including internal policy and procedure, information system and inappropriate behavior of the staff. The Company formulated operational risk management system and the supporting process guidance. In addition, the Company established management system and operation guidance for different businesses in compliance with the latest requirements from domestic regulatory authorities and risk management demands of the Company while continuing to make improvements. The Company formulated management mechanism to select, debug, test and monitor the information system. Moreover, the Company conducted staff training through onsite and offsite means to sharpen their risk management awareness.

### IX. CONSTRUCTION OF RISK MANAGEMENT SYSTEM

#### (I) Establishing an appropriate risk management framework

The Company established a risk management framework led by the Board, which ensures implementation of all risk management measures of the Company by defining the risk management responsibilities at different levels including the Board, the risk control and supervisory committee, the audit committee, the senior management and the chief risk officer of the Company.

The Board is the highest decision-making organ within the Company's risk management framework. It reviews risk management strategies and targets as well as basic policy of the Company and delivers overall risk preference, risk tolerance levels and risk quota of the Company based on its development strategy and risk tolerance levels of shareholders. The risk control and supervisory committee of the Board is responsible for monitoring the overall risk management of the Company to ensure that different risks related to operating activities of the Company are under effective surveillance.

The senior management of the Company is responsible for the effectiveness of the Company's risk management. The risk management special committee, its subordinate organ, is responsible for implementing Board's risk management strategies, targets and policies; implementing the risk tolerance levels and risk quota authorised and set by the Board; formulating risk control policies to be implemented by our securities branches, branch offices and subsidiaries; reviewing our risk control policy, procedure and plans and submitting risk management report to the Board and regulatory authorities.

The chief risk officer of the Company is responsible for overall risk management. He/she makes independent, prudent and timely judgment with respect to the overall risk management; coordinates different parties of the Company in risk management and facilitates the cultivation of the risk management culture; reports to the senior management with respect to risk management work; organizes the implementation of risk management measures according to the Board and senior management's relevant resolutions and work requirements; and reports to and communicates with regulatory authorities regarding our risk management.

## Management Discussion and Analysis (Continued)

Led by the chief risk officer, the risk management department of the Company is responsible for promoting overall risk management, identifying, monitoring, assessing and reporting the overall risk level of the Company so as to provide risk management suggestions for business resolutions; assisting, guiding and examining risk management of different departments and branches; facilitating the establishment of risk management information system that matches the business complexity and risk indicator of the Company and calculating, collecting, alarming and monitoring risks by defining risk management parameters and standards; identifying, assessing, monitoring, addressing and reporting the overall or specific risk of the Company to provide risk management suggestions for business resolutions; reviewing and performing risk evaluation with respect to new products, emerging business and significant investment; organising the implementation of comprehensive or specific stress test; and providing risk management suggestions for business resolutions and assisting, guiding and overseeing and examining the risk management performance of various departments, branches and subsidiaries.

Heads of different business departments and branches of the Company take primary responsibilities for risk management, executing frontline risk management function, defining risk points of different businesses and extending risk management to all business procedures and posts so as to implement self-control with respect to business risks.

### **(II) Further optimising risk management institutional system**

Pursuant to the relevant requirements of the Securities Law of the People's Republic of China, the Regulations on Supervision and Management of Securities Companies, the Measures for Managing the Risk Control Indexes of Securities Companies, the Norms for the All-round Risk Management of Securities Companies, the Guidelines on Liquidity Risk Management of Securities Companies and other laws, regulations and regulatory provisions and the Articles of Association and other internal rules and regulations, the Company established the Measures for All-round Risk Management of Hengtai Securities Co., Ltd., the Measures for Liquidity Risk Management of Hengtai Securities Co., Ltd., the Market Risk Management Provisions of Hengtai Securities Co., Ltd., the Credit Risk Management Provisions of Hengtai Securities Co., Ltd., the Measures for Operational Risk Management of Hengtai Securities Co., Ltd. and other specific risk management rules, the Company has completed the amendments and modifications to six special risk management rules concerning net capital, stress tests and real-time monitoring, revised the Measures for Managing the Risk Control Indexes of Hengtai Securities Co., Ltd.

## Management Discussion and Analysis (Continued)

and the Provisions on Dynamic Monitoring of Risk Control Indexes of Hengtai Securities Co., Ltd. on a timely basis and formulated risk management stipulations in relation to the standards of entry into the asset pool for non-standard businesses, due diligence, post-investment management, risk review and NEEQ market-making. According to the changes of the market environment and regulatory policies, the Company revised its policies in relation to business risk management including margin financing and securities lending business and securities-backed lending in a timely basis so as to form a relatively sound institutional system.

### **(III) Further improving risk management information system**

The Company has kept upgrading its internal control system covering various businesses, comprehensive risk management system and risk management modules embedded in various business systems while continuing to make supplements to the comprehensive risk management system modules from the perspective of internal credit-rating, liquidity risk management and risk preferences based on needs for risk management. The Company has rudimentarily realised the quantitative management of credit risk and liquidity risk as well as the establishment and improvement of the risk preference system. The Company has completed the consulting, system development and launching deployment for credit risk; the consulting, system development and launching deployment for liquidity risk management system; and the development, installation, testing and launching of the risk preference system.

In the meantime, the Company has devoted significant efforts to functional upgrading and optimisation of the existing risk management information system: firstly, the Company launched the Net Capital System Version 4.0, and then upgraded the system according to the Measures for Managing the Risk Control Indexes of Securities Companies as revised by the CSRC; and secondly, according to the needs of business operation and risk management, certain risk monitoring functions were added to the real-time monitoring system in order to support the application of new business qualifications.

## Management Discussion and Analysis (Continued)

### **(IV) Establishing a working mechanism of stress test normalisation**

In addition to an annual comprehensive stress test, the Company studied and established special stress test modes for various business and special risk types so as to set up a relatively integrated tool library of stress test modes. In consideration of the specific market environment and the operations of the Company, the Company also carried out regular and occasional stress tests, aiming at prospectively analysing the impacts of various risk factors on the profitability of the businesses and risk tolerance levels of the Company.

### **(V) Promoting the quantification level of risk assessment**

For market risks relating to securities investment, the Company increased the accuracy and practicality of quantitative assessment and thus provided certain support for business decisions by continuously improving the measurement model and system functions. For credit risks relating to non-standard businesses, the Company has kept optimising its special risk appraisal mechanism while enhancing the capability of risk identification and analysis, the quantification of assessment and the objectivity of appraisal by means of on-site due diligence investigation, appraisal analysis and credit rating conducted by the risk management department.

### **(VI) Establishing a risk preference system**

Based on external regulatory requirements and internal business development needs, the Company has developed a risk preference system and worked out its qualitative risk preference statement and advanced risk preference indexes. Under its business development strategy, operation plans and overall risk management framework, the Company has also set up low-level risk limit indicators for different risk categories and business lines based on the risk preference system.

### **X. COMPETITION AND POSITION IN THE INDUSTRY AND CORE COMPETITIVENESS**

#### **(I) Competition in the industry**

In 2016, the new changes in the market and regulatory environment of the securities industry resulted in a series of positive changes in the competitive environment of the industry.

In respect of market environment, in 2016, due to the effects of domestic and overseas economic situation, the stock market experienced slight fluctuations, resulting in a drop in trading volume, and the revenue contributions of securities companies' traditional businesses including brokerage business and proprietary business generally declined due to the fiercer competition. As institutions in the industry conducted business innovation, and securities companies sought for transformation to grab market share, the percentage of revenue from innovative business was expected to increase, reducing the reliance on traditional businesses. The revenue structure of securities companies became more diversified and the differentiated competition pattern in the industry was further consolidated.

In respect of regulatory environment, in 2016, securities regulators adhered to all-round regulations over the industry in strict accordance with laws and successively issued a series of policies, which intensified the regulations over securities companies' brokerage, assets management, investment banking and other business fields and the compliant operation of securities companies, and normalised the competition order in the industry. In the long run, all-round regulations in strict accordance with laws are in favour of the sound development of securities industry and the construction of a benign competition environment.

#### **(II) Market position**

According to the statistical data of the Securities Association of China, as at 31 December 2016, there were 129 securities companies in the PRC, and the average total assets, net assets and net capital size of a single securities company amounted to RMB44.9 billion, RMB12.7 billion and RMB11.4 billion, respectively. In 2016, the average operating revenue of a single securities company amounted to RMB2,543 million and the average net profit of a single securities company amounted to RMB957 million.

## Management Discussion and Analysis (Continued)

The 2016 industry data shows that the Company remained a small and medium securities dealer in the industry. The Company's operating revenue in 2016 was above the industry average. However, the supplement of net capital of the Company was lagging behind in the industry and the net assets and net capital were below the industry average. The Company will comprehensively improve its operating results through continuous business innovation and transformation and building professional and comprehensive service systems.

In 2016, the Company made certain progress in a number of businesses as compared to 2015. According to the statistics of Wind Info, the market share of brokerage business of the Company continued to rise, and ranked the 40th in the industry, 7 places higher than that in 2015; the underwriting amount of investment banking business of the Company ranked the 51st in the industry, 9 places higher than that in 2015; the business of listing on the NEEQ of the Company ranked the 32nd in the industry, 35 places higher than that in 2015. As at 31 December 2016, the data published by the Asset Management Association of China indicated that the products filed by the manager of asset securitisation of the Company ranked the 3rd in the industry, maintaining a leading position in the market.

### (III) Core competitiveness

#### 1. Professional and experienced management team

The management team of the Company is experienced in the securities and financial service industries with their average experience in the securities industry close to 15 years. The management team with sufficient authority in respect of investment decision as granted by the Shareholders and the Board has set up efficient decision making procedures, and is able to make prompt adjustments to the business strategy of the Company based on the changes in regulation, customer demands and market conditions in due course to ensure long-term stable development of the Company.

## Management Discussion and Analysis (Continued)

### 2. Implementation of effective risk management and internal control systems

The implementation of effective risk management and internal control systems enables the Company to identify, assess, reduce and manage various risks in the course of business. The Company has always been dedicated to strengthening risk management and internal control, corporate governance and building corporate compliance culture, with a view to identifying and correcting the shortcomings in risk management and internal control in a prompt manner, and continuously improving the Company's risk management and internal control systems by means of quantifying control over risk management and operation risks, thus ensuring sound and stable growth of the Company's business.

### 3. Good continued innovation capability

Continued innovation capability is conducive to the development of diversified product and service mix of the Company, thus satisfying customers' different demands and attracting the extensive retail and institutional customers, to further boost the Company's business development. With good capital strengths and effective risk management capacity, the Company has made great achievements in asset securitisation business, customer financing business, and other innovative businesses in recent years.

In addition, the Company has always attached importance to innovative application in the Internet field. The Company adopts the "Internet Plus" strategy and plans to further development a comprehensive online electronic platform to cater to the increasing demands for wealth management. The traditional securities business has been transformed to adopt the online business model due to cooperation with third party Internet service suppliers, thus accessing to and getting more customer resources. The Company also provides one-stop comprehensive online diversified financial services including payment, financial management, investment and financing.

## Management Discussion and Analysis (Continued)

### 4. Complete business layout, accelerated transformation and upgrade

The Company is also a comprehensive service securities company that has strategic distributions in the major cities of the developed regions of China. The Company provides companies, financial institutions, government entities and individuals with a wide scope of financial products and services by means of brokerage and wealth management, investment management, proprietary trading and investment bank business. The securities branches newly established by the Company in the recent two years are mainly distributed in the economically developed regions in China, laying a foundation for further increase of the Company's market share and influence.

The Company highly values the future development and reform of the securities industry and proactively deepens the transformation and upgrade of the Company's businesses. It vigorously boosts the transformation of its businesses and securities branches from single service into a comprehensive financial platform, and reinforces synergistic effects among business departments to continuously improve the customer service capacity. Facing the future challenges in the market, on the basis of intensifying compliance management and control and prevention of risks, the Company will continue to deepen the innovation and transformation of businesses to enhance the advantages of characteristic and differentiated businesses and expand its business size and market influence.

### 5. Excellent corporate culture

The Company will always hold the corporate culture of "innovation, being practical, integrity and cooperation". The instant promotion of corporate culture construction further enhances staff's recognition of corporate culture and cohesiveness and ensures the smooth implementation of the Company's overall strategy and specific businesses. At the same time, the open cooperation mechanism also laid a favorable foundation for the Company to attract excellent talents and intensify its cooperation with the external world.

## Management Discussion and Analysis (Continued)

### 6. Talent strategy centered, market-oriented staff incentive mechanism

The Company insists on centering on talent strategy, stresses the reinforcement of talent cultivation and continues to provide staff training. It has improved staff's knowledge reserve and professional skills, effectively enhanced the teamwork awareness and promoted the cooperation among business lines and between the foreground and background of the Company. The Company has developed the market- and performance-oriented staff remuneration structure, and executed the standard multi-level review mechanism to place the focus on performance and business objectives. Furthermore, it has established a reasonable talent development system and a reserve talents selection and management mechanism to foster professionals and set up channels for promotion.

## XI. PROSPECTS

In 2017, the domestic macro economy is expected to maintain stable operation and the regulatory authorities will continue to implement strict control over the industry. In response to the new changes in the competitive landscape of the securities industry at home, the Company will strengthen its risk management and strategic execution capabilities based upon objective evaluation on the competitive environment of the industry, and continue to follow the trail of innovative development with characteristic and differentiated features with abidance by strict compliance and risk control.

The Company will construct a comprehensive securities service platform and a multi-layered wealth management and service system and build itself into a modern securities corporation with characteristic brand. The Company will further deepen its transportation and reform in respect of the business mode and income structure, expand its customer base by virtue of the Internet-based financial business and highlight the layout of the purchaser's business based thereupon. It will also develop a new source of profit growth and continue to consummate its business layout so as to improve the synergistic effects of both the online and offline businesses, press forward the implementation of the various operating strategies and strive to help more business segments to reach the advanced level in the industry.

# Report of the Board of Directors

## **I. INFORMATION ON THE PRINCIPAL ACTIVITIES AND PRINCIPAL SUBSIDIARIES**

The relevant information on the principal activities is set out in the subsection headed “II. Analysis of Principal Business” under Section 5 “Management Discussion and Analysis” and forms a part of this Report of the Board of Directors.

The relevant information on the principal subsidiaries is set out in the subsection headed “IV. Subsidiaries” under Section 3 “Company Profile” and forms a part of this Report of the Board of Directors.

## **II. ANALYSIS OF MAJOR FINANCIAL PERFORMANCE INDICATORS**

The relevant information is set out in the subsection headed “III. Financial Statements Analysis” under Section 5 “Management Discussion and Analysis” and forms a part of this Report of the Board of Directors.

## **III. ANALYSIS OF PRINCIPAL RISKS AND UNCERTAINTIES**

The relevant information is set out in the subsection headed “VIII. Risk Factors and Countermeasures” under Section 5 “Management Discussion and Analysis” and forms a part of this Report of the Board of Directors.

## **IV. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PLAN**

### **(I) Formulation, implementation or adjustment of the profit distribution policy**

The Company has been attaching great importance to reasonable investment return to its shareholders, and emphasising the stability and continuity of investment return. In accordance with relevant requirements of the Articles of Association and with reference to the industry development trends, its own development plan and external financing environment, the Company has formulated its profit distribution plan on a reasonable basis to safeguard shareholders’ interests. During the Reporting Period, the profit distribution policy was strictly implemented without any adjustment.

## Report of the Board of Directors (Continued)

### (II) Implementation of the 2015 profit distribution plan

At the 2015 annual general meeting of the Company held on 27 May 2016, the resolution in Relation to the 2015 Profit Distribution Plan was considered and approved, pursuant to which, cash dividend of RMB1.00 per 10 shares (tax inclusive) and RMB260,456,741.20 in aggregate (tax inclusive) based on the total number of issued shares of 2,604,567,412 shares as at 31 December 2015 would be distributed to holders of Domestic Shares and H Shares whose names appear on the register of members of the Company as at close of business on 7 June 2016.

The 2015 final dividend was denominated and declared in RMB, and payable in RMB and in HK dollars to holders of Domestic Shares and H Shares, respectively. The amount distributed in HK dollars was calculated based on the average benchmark exchange rate of RMB against HK dollar (HK\$1.00 for RMB0.843834) announced by the People's Bank of China for the five working days prior to the date of the 2015 annual general meeting, and therefore the dividend payable per 10 H Shares was HK\$1.185067 (tax inclusive). The distribution of the 2015 final dividend of the Company was completed on 25 July 2016.

### (III) 2016 profit distribution plan

The profit distribution plan of the Company in 2016 was that no profit distribution will be made.

## V. THE ISSUE OF SHARES AND THE USE OF PROCEEDS

### (I) Proceeds

On 9 September 2015, the Company received the Reply Concerning Approval of Issue of Overseas Listed Foreign Invested Shares by Hengtai Securities Co., Ltd. (Zheng Jian Xu Ke [2015] No. 2089) (《關於核准恒泰證券股份有限公司發行境外上市外資股的批覆》(證監許可[2015]2089號)) issued by the CSRC to approve Hengtai Securities to publicly offer overseas listed foreign invested shares (H Shares) and listed the same on the Main Board of the Hong Kong Stock Exchange.

A total of 450,846,000 H Shares were offered while 409,860,000 shares were issued by the Company. 5 state-owned shareholders transferred 40,986,000 shares to the National Council for Social Security Fund of China according to relevant regulations and such shares were sold to overseas investors. The Company raised total proceeds of HK\$1,767,316,320, equivalent to approximately RMB1,447 million.

## Report of the Board of Directors (Continued)

The actual proceeds received by the Company (deducting the listing related expenses and the amount directly transferred into the national treasury pool due to share selling by the selling shareholders (namely reduction of state-owned shares) was RMB1,260,497,124.36.

### (II) Use of Proceeds

The funds raised as specified in the Company's Prospectus shall be used as per the following purposes:

1. about 50% of the funds will be used for the Company's capital-based intermediary business, including margin financing and securities lending and securities pledged repurchase business and for the development of online margin financing and securities lending and securities pledged repurchase business services.
2. about 30% of the funds will be used for the development of the Company's NEEQ market-making business.
3. about 20% of the funds will be used for the development and enhancement of the internet-based finance business of the Company.

As at 31 December 2016, the Company has used RMB710.68 million out of the proceeds cumulatively. In particular, RMB650.90 million was used for the capital-based intermediary business, mainly for margin financing and securities lending and securities pledged repurchase business and for the development of online margin financing and securities lending and securities pledged repurchase business services; and RMB59.78 million was used for the internet-based finance business of the Company. The balance of the proceeds (including interest income and others) was RMB610.31 million.

## VI. DIRECTORS AND SUPERVISORS

Details of the Directors and the Supervisors during the Reporting Period and as at the date of this report are set out in "Section 9 Directors, Supervisors, Senior Management and Employees", which form a part of this Report of the Board of Directors.

## Report of the Board of Directors (Continued)

The Company has received the annual written independence confirmation from each independent non-executive Director prepared pursuant to Rule 3.13 of the Listing Rules and believes that all the independent non-executive Directors are independent of the Company.

### **VII. DIRECTOR AND SUPERVISOR SERVICE CONTRACT**

No Director or Supervisor has entered into any service contract with the Company or its subsidiaries which shall be compensated (except for statutory compensation) upon termination within one year.

### **VIII. INTERESTS OF DIRECTORS, SUPERVISORS AND CONTROLLING SHAREHOLDERS**

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

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any Director or Supervisor of the Company or an entity connected with any Director or Supervisor has a material interest, whether directly or indirectly, has been entered into or subsisted during the Reporting Period.

#### **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, whether directly or indirectly, and subsisted during the Reporting Period, save as disclosed in this report.

### **IX. DIRECTORS' INTERESTS IN THE BUSINESS COMPETING WITH THE COMPANY**

None of the Directors has interest in business competing with the Company during the Reporting Period.

## Report of the Board of Directors (Continued)

### X. DIRECTORS AND SUPERVISORS' RIGHT TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, no Directors, Supervisors of the Company or their respective spouse or children under the age of 18 purchase the shares or debentures of the Company to obtain benefit, or such persons exercise any such right; and no arrangements have been made by the Company or any of its subsidiaries to grant such rights to any Directors, Supervisors of the Company or their respective spouse or children under the age of 18 in any other body corporate.

### XI. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, based on the information acquired by the Company and to the knowledge of the Directors, the Directors, Supervisors and chief executives of the Company have no (i) interests and short positions (including the interests or short positions considered or deemed to have according to such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Sections 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO, or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), save as disclosed as follows:

Name	Class of shares	Nature of interest	Number of Shares held <i>(shares)</i>	Approximate percentage of total number of issued shares of the Company <sup>1</sup> <i>(%)</i>	Approximate percentage of the Company's total issued Domestic Shares/ H Shares <sup>1</sup> <i>(%)</i>	Long positions/ short positions/ shares available for lending
<b>Supervisor</b>						
Ms. Pei Jingjing <sup>2</sup> (裴晶晶女士) <sup>2</sup>	Domestic shares	Interest in a controlled corporation	206,182,000	7.92	9.57	Long positions

## Report of the Board of Directors (Continued)

*Note 1:* As of 31 December 2016, the Company has issued a total number of 2,604,567,412 shares, comprising 2,153,721,412 Domestic Shares and 450,846,000 H Shares.

*Note 2:* 99.99% and 0.01% of the equity interest in Huijin Jiaye are held by Shanghai Xishida and Ms. Pei Jingjing (裴晶晶女士), who is a Supervisor of the Company, respectively. 95% and 2% of the equity interest in Shanghai Xishida are held by Shenzhen Zhongxin and Ms. Pei Jingjing (裴晶晶女士), respectively. Approximately 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35% and 35% of the equity interest in Shanghai Julu are held by Ms. Pei Jingjing (裴晶晶女士) and Mr. Ci Penghui (慈鹏辉先生), respectively. Therefore, Ms. Pei Jingjing (裴晶晶女士) is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.

## XII. COMPLIANCE WITH NON-COMPETITION UNDERTAKINGS

As disclosed in the Prospectus, each of Baotou Huazi, Qingyun Intercontinental, Finance Street Xihuan Properties, Huijin Jiaye, Finance Street Investment, Huarong Infrastructure, Huifa Investment, Hongzhi Huitong, Zhongchang Hengyuan, Shanghai Yida and Tomorrow Holding has signed a non-competition undertaking (collectively, “Non-competition Undertakings”). Pursuant to the Non-competition Undertakings:

- (a) each of Baotou Huazi, Qingyun Intercontinental, Huijin Jiaye, Huifa Investment and Hongzhi Huitong has undertaken that (i) it and its controlled entities do not currently engage in any business which competes with our business; and (ii) after the Listing, it and its controlled entities will not engage in any competing business that is the same as or similar with our business;
- (b) each of Finance Street Xihuan Properties, Finance Street Investment and Huarong Infrastructure has undertaken that (i) it and its controlled entities do not currently engage in any business which requires approvals from CSRC and competes with our primary business; and (ii) after the Listing, it and its respective controlled entities will not directly or indirectly hold any equity interests in other securities companies by establishment or acquisition of companies; and
- (c) each of Zhongchang Hengyuan, Shanghai Yida and Tomorrow Holding has undertaken that, other than their shareholding interests in New Times Securities, (i) it and its controlled entities do not currently engage in any business which requires approvals from CSRC and competes with our primary business; and (ii) after the Listing, it and its respective controlled entities will not directly or indirectly hold any equity interests in other securities companies by establishment or acquisition of companies.

## Report of the Board of Directors (Continued)

### XIII. PERMITTED INDEMNITY PROVISIONS

During the Reporting Period, the Company has arranged for appropriate liability insurance for all the Directors, Supervisors and senior management to cover their indemnity liabilities arising out of corporate affairs.

### XIV. EQUITY-LINKED AGREEMENTS

During the Reporting Period, the Company did not enter into any equity-linked agreement.

### XV. OTHER DISCLOSURES

**(I) Share capital**

Information on share capital is contained in Note 47(a) to the consolidated financial statements of this report and forms a part of the Report of the Board of Directors.

**(II) Pre-emptive rights arrangements**

According to the PRC laws and the Articles of Association, currently the Company has no pre-emptive rights arrangements.

**(III) Sufficiency of public float**

During the Reporting Period, according to the information obtained by the Company and to the knowledge of the Directors, the public shareholding of the Company's H Shares has satisfied the minimum percentage as modified in the waiver granted by the Hong Kong Stock Exchange from strict compliance with Rule 8.08(1)(d) of the Listing Rules.

**(IV) Management contract**

During the Reporting Period, no management and administration contracts relating to all or any substantial part of the business of the Company was entered or existed.

## Report of the Board of Directors (Continued)

### (V) Data on tax reduction and exemption by the shareholders of H Shares

Individual investors

In accordance with the Individual Income Tax Law of the People's Republic of China (2011 Amendment) 《中華人民共和國個人所得稅法》(2011修正)) and the Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China (2011 Revision) 《中華人民共和國個人所得稅法實施條例》(2011修訂)), the dividends paid by the Chinese companies shall be subject to the withholding tax at a rate of 20%. Non-Chinese resident foreign individuals shall be imposed 20% of personal income tax on the dividends gained from Chinese companies, except specific exemptions allowed by the tax authorities of the State Council or special deductions in accordance with applicable tax treaty.

According to the Notice on the Management of Personal Income Tax Impose after the Abolition of Guo Shui Fa [1993] No. 045 Document (Guo Shui Han [2011] No. 348) 《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) issued by the State Administration of Taxation, for domestic non-foreign-invested enterprises making public offering in Hong Kong, the foreign resident individual shareholders are entitled to the associated tax preference according to the provisions in the taxation treaties signed between their nations and China as well as the taxation arrangements between Mainland China and Hong Kong (Macao). The dividends paid by domestic non-foreign-invested enterprises which have made the public offering in Hong Kong to foreign resident H Shares individual holders shall be imposed personal income tax at the rate of 10%, without having to make applications to the Chinese tax authorities. If the tax rate of 10% is not applicable, the enterprises should (i) for a foreign resident who is H Shares individual holder to receive dividend, if his country has signed income tax treaty at the rate of less than 10% with China, non-foreign-invested enterprises which have made public offering in Hong Kong may, on behalf of such holder, apply for lower tax rate preference; upon approved by the tax authorities, the excessive part of withholding tax paid will be refunded; (ii) for a foreign resident who is H Shares individual holder to receive dividend, if his country has signed income tax treaty at the rate of higher than 10% but less than 20% with China, non-foreign-invested enterprises which have made public offering in Hong Kong shall pay withholding tax in accordance with the treaty and no need to make an application; (iii) for a foreign resident who is H Share individual holder to receive dividend, if his country has not signed any tax treaty or otherwise, non-foreign-invested enterprises which have made public offering in Hong Kong shall pay withholding tax at the rate of 20%.

## Report of the Board of Directors (Continued)

### Enterprise

According to the Enterprise Income Tax law of the People's Republic of China (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) 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 bonus 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.

According to the Circular concerning Questions on Withholding and Payment of Enterprise Income Tax when PRC Resident Enterprises Distribute Dividends to Non-resident Corporate Shareholders of Foreign H Shares (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股利代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by the State Administration of Taxation, which became effective on 6 November 2008, PRC resident enterprises should withhold enterprise income tax at a unified rate of 10% when they distribute dividends for the year of 2008 and beyond to non-resident corporate shareholders of foreign H Shares. After receiving dividends, non-resident corporate shareholders may apply to the relevant tax authorities for enjoying treatment of taxation treaties (arrangement) in person or by proxy or by a person who has obligation for withholding or paying dividend and provide information to prove it is an actual beneficiary under the requirement of taxation treaties (arrangement). After the relevant tax authorities have verified that there is no error, it shall refund tax with reference to the tax levied and the difference in the amount of tax payable calculated at the tax rate under the taxation treaties (arrangement).

### **(VI) Reserves and reserves of profits available for distribution**

Reserves and the Changes in reserves of profits available for distribution of the Group during the Reporting Period are set out in Note 49 to the consolidated financial statements and the "consolidated statement of changes in equity" in this report, which forms a part of the Report of the Board of Directors.

## Report of the Board of Directors (Continued)

### (VII) Relationship with key stakeholders

#### 1. Employees

Employees are regarded as the most important and valuable assets of the Group. The Group has established complete systems and procedures of human resource management in order to regulate the use of human resources and realistically protect employees' rights and interests. Through compensation and welfare schemes and annual appraisal plans, the Company has awarded and commended outstanding employees while enhancing employees' vocational capabilities and widening their room for promotion by way of training and others.

Details of the employees are contained in "VI. Details and Remuneration of Staffs" under Section 9. "Directors, Supervisors, Senior Management and Employees", which forms a part of this Report of the Board of Directors.

#### 2. Major customers and suppliers

The Company provides services for the various individual customers and institutional customers. The Company's large clients include financial institutions, large, small and medium enterprises, institutional investors and individual clients. Most clients of the Company are located in China, mainly in Inner Mongolia. As of 31 December 2016, revenue and other income generated from the top five clients accounted for 5.31% of the revenue and other income of the Group. During the Reporting Period, as far as the Directors are aware, none of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers.

Due to the nature of the business, the Company does not have major suppliers.

## Report of the Board of Directors (Continued)

### **(VIII) Property and equipment**

The relevant information is set out in Note 22 to the consolidated financial statements of this report, which forms a part of this Report of the Board of Directors.

### **(IX) Fulfillment of Social Responsibilities**

#### 1. Investor education

The Company actively performs its social responsibilities. Leveraging on professional advantages and special activities, we continuously enhance investor education, promote the ideology of rational investment and therefore protect investors' interests.

During the Reporting Period, the Company conducted a series of investor education and protection theme activities in various forms, with rich contents and advocating innovation in strict accordance with the requirements of the regulatory authorities, such as investor education and protection theme series activities themed "Be a Rational Investors", the activities on the popularisation of investor protection knowledge and Publicity Month for Combating Illegal Activities themed "Keep Away From Illegal Security Activities and Pass the Positive Energy". Those activities cover areas including the investor suitability system, the popularisation of investors' legal rights and obligations, the diversified solutions of securities disputes, the demonstration of typical cases of prevention of illegal securities activities, the interpretation of illegal securities cases, the questions and answers on investor protection knowledge and the exhibition of investment education products. Through the above activities, the Company enhanced communications with investors, promoted their awareness of rational investment and rights protection. As a result, the Company received great social benefits.

## Report of the Board of Directors (Continued)

### 2. Social activities and public benefit donations

During the Reporting Period, the Company continued to strengthen the performance of social responsibility and actively participated in social benefit activities. The Company funded RMB100,000 to Ganggegacha village, Barunbieli Town, Alxa Left Banner (阿左旗巴潤別立鎮崗格嘎查) Inner Mongolia Autonomous Region of the PRC, for the construction of a new cultural activities room. According to the unified arrangements of the Organisation Department of Party Committee and Organisation Department of the Union Committee of Inner Mongolia Autonomous Region of the PRC, the Company actively participated in the activities themed “Financial Cadres Go to Towns and Counties(金融幹部進旗縣)”. From June 2015 to June 2016, Mr. Wang Li, the director of the executive center of the Company, took a temporary post in Alxa Left Banner Alxa League, the Inner Mongolia Autonomous Region of the PRC, as the deputy banners in the People’s Government of Alxa Left Banner, to assist in the financial management work in the whole banner. The Company organised free blood donation activities themed “Offering our blood, Demonstrating Hengtai’s love(奉獻愛心熱血·彰顯恒泰深情)”. The Company participated in the project themed “For a warm tomorrow – demonstration project of whole village poverty alleviation in old revolutionary base area(溫暖明天工程·整村扶貧革命老區示範項目)”, and purchased agricultural products amounting to RMB132,700 from Jiangxi Huichang County, Ganzhou City, Jianxi Province of the PRC.

#### **(X) Material events after the Reporting Period**

The relevant information is set out in “XI. Other Important Particulars and Subsequent Events” under Section 7 “Other Material Particulars”, which forms a part of this Report of the Board of Directors.

#### **(XI) Compliance of laws and regulations**

The Company stringently abides by domestic and overseas laws, regulations, and industry norms such as the Company Law of the PRC 《中華人民共和國公司法》, the Securities Law of the PRC 《中華人民共和國證券法》, the Regulations on Supervision and Management of Securities Companies 《證券公司監督管理條例》, the Rules for Governance of Securities Companies 《證券公司治理準則》, the Listing Rules and the SFO.

## Report of the Board of Directors (Continued)

### **(XII) Environmental policies and performance**

The Group has been attaching importance to environmental protection and reducing the impact on the environment through measures as resource protection, resource recycling as well as energy conservation and emission reduction. The Group constantly carries out internal recycling measures in terms of its consumables (eg. toner cartridge and paper) in order to lessen its impact on consumption of resources and impact on environment resulting from the operating activities. Furthermore, the Company encourages employees to adopt the duplex printing when printing and collect one-side paper for recycling.

The Group implements energy saving measures in its offices, branches and other areas, encourages its employees to reduce unnecessary use of lighting and air conditioning, and actively promotes green travel.

### **(XIII) Business Review**

The relevant information is set out in Section 5 “Management Discussion and Analysis”, which forms a part of this Report of the Board of Directors.

### **(XIV) Future Development**

The relevant information is set out in XI. “Prospects” under Section 5 “Management Discussion Analysis”, which forms a part of this Report of the Board of Directors.

### **(XV) Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Venture**

The relevant information is set out in Section 5 “Management Discussion and Analysis” and Section 7 “Other Material Particulars”, which forms a part of this Report of the Board of Directors.

### **(XVI) Donations**

During the Reporting Period, the Group made charitable donations amounting to RMB232,700. Please refer to (IX) “Fulfillment of Social Responsibilities” under XV. “Other Disclosures” in this section.

### **(XVII) Bonds**

The relevant information is set out in V. “Major Investment and Financing” under Section 5 “Management Discussion and Analysis”, which forms a part of this Report of the Board of Directors.

By order of the Board

**Pang Jiemin**

*Chairman*

Beijing, the PRC, 24 March 2017

# Other Material Particulars

## I. PUNISHMENT OR PUBLIC CENSURE IN THE REPORTING PERIOD

During the Reporting Period, the Directors, Supervisors and senior management of the Company were not punished or subject to any public censure. The punishments or public censures against the Company are set out below:

1. On 2 June 2016, the Company received the Decision of Ordering Hengtai Securities Limited Liability Company to Make Rectification and Enhance Compliance Inspection (Xing Zheng Jian Guan Cuo Shi Jue Ding Shu [2016] NO.2) (《關於對恒泰證券股份有限公司採取責令改正並增加內部合規檢查次數措施的決定》(行政監管措施決定書[2016]2號)) issued by the Inner Mongolia Securities Regulatory Bureau of CSRC (中國證監會內蒙古監管局), pursuant to which, the Inner Mongolia Securities Regulatory Bureau of CSRC conducted a special on-site inspection of risk management and control and cash flows of Hengtai Capital and Hengtai Pioneer, the subsidiaries of the Company, and their respective subsidiaries, and issued the above written decision to the Company in respect of its lending of own capital to Hengtai Pioneer and lack of management of its subsidiaries.

The Company took this written decision very seriously. It had adopted specific rectification measures in a timely manner, and submitted a written report concerning the implementation of rectifications and a concrete proposal about enhancing compliance inspection to the Inner Mongolia Securities Regulatory Bureau of CSRC on 29 June 2016 as requested. Moreover, the Company conducted relevant compliance inspections of its subsidiaries based on the above-mentioned proposal.

2. On 22 August 2016, the Company received the Decision of Ordering Hengtai Securities Limited Liability Company to Correct Self-regulatory Measures (Gu Zhuan Xi Tong Fa [2016] NO.237) (《關於對恒泰證券股份有限公司採取責令改正自律監管措施的決定》(股轉系統發[2016]237號)) issued by National Equities Exchange and Quotations Company Limited (全國中小企業股份轉動系統有限責任公司) in relation to its opening of NEEQ qualified investors accounts for 23 disqualified investors based on the real-time assets value of the relevant investors' securities assets at the point in time of application instead of the assets value at the end of the last trading date prior to signing any entrustment agreements.

## Other Material Particulars (Continued)

Upon receipt of the above written decision, the Company took immediate actions to regulate more strictly the granting of opening permission. In regard to misjudgment of point in time of clients' assets due to misunderstanding of business, the Company had cancelled the permissions of disqualified investors and re-signed the entrustment agreements and the disclosure statements with those investors who met the relevant requirements of qualification management. The Company had further improved the internal management system of the qualifications of investors and enhanced its compliance awareness, and accordingly submitted a rectification report to National Equities Exchange and Quotations Company Limited on 9 September 2016.

## II. SIGNIFICANT LAWSUITS AND ARBITRATIONS

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

None.

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

None.

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

None.

### III. IMPORTANT CONTRACTS AND CONTRACT FULFILLMENT

1. The Company entered into a property lease contract with China Everbright Bank, Hohhot Branch on 1 September 2015, pursuant to which the Company leased from China Everbright Bank, Hohhot Branch the space of 14–18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, China for a term of 1 year commencing from 1 September 2015. The property lease contract was renewed from 1 September 2016. The rental paid by the Company for the Reporting Period was RMB6,003,000.
2. The Company entered into a property lease contract with China Life Real Estate Co., Limited on 1 March 2016, pursuant to which the Company leased from China Life Real Estate Co., Limited the space of the Unit 1101, 11/F, China Life Centre, Financial Street, Xicheng District, Beijing, China for a term of 3 years commencing from 1 March 2016. The rental paid by the Company for the Reporting Period was RMB19,982,100.

### IV. CONNECTED TRANSACTIONS

The Group carried out connected transactions in strict compliance with the Listing Rules and the requirements of the Group's internal regulations under the principles of impartiality, openness and fairness.

The Company and Huarong Investment entered into a property leasing and related services framework agreement on 23 September 2015 to regulate the Group's properties leasing relationship and property management services. SASAC of Xicheng District, through Finance Street Xihuan Properties, Finance Street Investment and Huarong Infrastructure (collectively "Finance Street Group"), is interested in approximately 20.42% of the total issued share capital of the Company, and therefore it will be a substantial shareholder of the Company. Pursuant to Rule 14A.07 of the Listing Rules, Finance Street Group and its associates are connected persons of the Company. Huarong Investment is a holding company of Finance Street Xihuan Properties, and is therefore an associate of the Finance Street Group. Accordingly, Huarong Investment is a connected person of the Company and transactions that the Company enter into with Huarong Investment and its associate will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

## Other Material Particulars (Continued)

Such property leasing and related services framework agreement became effective from the Listing Date and will expire on 31 December 2017, subject to renewal. The Hong Kong Stock Exchange has granted a waiver to the continuing connected transactions from compliance with the announcement requirement under Chapter 14A of the Listing Rules subject to the condition that the annual transaction value shall not exceed the relevant proposed annual caps. For details of the principal terms and pricing basis of the property leasing and related services framework agreement, please refer to the section headed "Connected Transactions" in the Prospectus. The amount of the above continuing connected transactions during the Reporting Period was RMB9,712,141, not exceeding the 2016 annual caps of RMB21.6 million disclosed in the section headed "Connected Transactions" in the Prospectus.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and have confirmed that such continuing connected transactions:

- (1) are in the ordinary and usual course of business of the Company;
- (2) are conducted on normal commercial terms; and
- (3) are conducted in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

The Board has received a letter from the auditors of the Company in respect of the continuing connected transactions mentioned above, a copy of which has been provided to the Hong Kong Stock Exchange and in which the auditors have expressed the following opinion on the disclosed continuing connected transactions:

Based on the foregoing, in respect of the disclosed continuing connected transactions:

- a. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.

## Other Material Particulars (Continued)

- c. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the 2016 annual cap as set by the Company in the section “connected transactions” of the Prospectus dated 30 September 2015.

Save as disclosed above, other transactions set out in Note 55 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions or are exempt from compliance with reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### V. ACQUISITION, MERGER AND SEPARATION IN THE REPORTING PERIOD

None

### VI. ATTAINED QUALIFICATIONS FOR SINGLE BUSINESS

No.	Permits	Approval authority	Time
1	Notice in relation to Approval of Trading Authority for Access to Southbound Trading Business under the Shenzhen-Hong Kong Stock Connect 《關於同意開通深港通下港股通業務交易權限的通知》	Shenzhen Stock Exchange	3 November 2016

### VII. MAJOR ITEMS OFF BALANCE SHEET

There were no other major off-balance sheet items that may affect financial position and operating results of the Company and its subsidiaries within the Reporting Period.

## Other Material Particulars (Continued)

### VIII. SHARE OPTION SCHEME AND EQUITY INCENTIVE SCHEME

During the Reporting Period, the Company did not adopt nor implement any share option scheme or equity incentive scheme.

### IX. CLASSIFIED EVALUATION RESULTS OF THE COMPANY FROM SECURITIES REGULATORY AUTHORITY

In the classified evaluation of the PRC securities companies in 2016 carried out by the CSRC, the Company was assigned an A rating in Class A.

### X. ENGAGEMENT OF ACCOUNTING FIRMS

The Company appointed Ruihua Certified Public Accountants LLP and RSM Hong Kong as its external auditor for 2016 for providing correlated audit and review services, based on China's Accounting Standards for Business Enterprises and International Financial Reporting Standards, respectively.

Whether appointed other accounting firms in the past three years: Yes.

As the Company could not reach a consensus with KPMG on the audit fee proposed for the financial year ended 31 December 2016, the resolution in respect of the change of International Auditors was considered and approved at the 2015 annual general meeting of the Company held on 27 May 2016, pursuant to which the Company ceased to re-appoint KPMG as its international accounting firm for 2016 and appointed RSM Hong Kong as its international accounting firm for 2016.

**1. Domestic accounting firms, signing accountants and service lengths:**

Ruihua Certified Public Accountants LLP, Ms. Pan Shuai and Mr. Hu Wei, nine years.

**2. International accounting firms and service lengths:**

RSM Hong Kong, one year.

### 3. Remunerations for accounting firm

The Company paid RMB1.63 million to Ruihua Certified Public Accountants LLP for annual audit fee in 2016.

The Company paid RMB0.7 million to RSM Hong Kong for interim review fee in 2016 and RMB1.80 million for annual audit fee in 2016.

## XI. OTHER IMPORTANT PARTICULARS AND SUBSEQUENT EVENTS

### (I) Change of Shareholders, Directors, Supervisors and senior management of the Company and its subsidiaries after the Reporting Period

1. Change of Shareholders, Directors, Supervisors and senior management of the Company after the Reporting Period

None.

2. Change of Shareholders, Directors, Supervisors and senior management of the subsidiaries after the Reporting Period

As considered and approved at the 2017 first general meeting of New China Fund, Mr. Wang Haibing, the former chairman of the supervisory committee resigned as a supervisor, and Ms. Yang Shufei was supplemented as a supervisor. On 3 February 2017, as considered and approved at the fourth meeting of the first session of the supervisory committee of New China Fund, Ms. Yang Shufei was appointed as the chairman of the first session of supervisory committee of New China Fund.

### (II) Annual profit distribution plan of the Company

1. Annual profit distribution plan of the Company

Please refer to Section 6 "Report of the Board of Directors – IV. Profit distribution and profit distribution plan".

2. Annual profit distribution plan of subsidiaries

None.

## Other Material Particulars (Continued)

### (III) Major investment & financing after the Reporting Period

#### 1. Major investment & financing of the Company

##### (1) Investment

None.

##### (2) Financing

On 24 February 2017, the Company issued beneficiary certificates named “Hengchuan taifu No.6” with a size of issuance of RMB0.1 billion, a term of 728 days and interest rate of 5.70%.

On 8 March 2017, the Company issued beneficiary certificates named “Hengchuan taifu No.8” with a size of issuance of RMB0.3 billion, a term of 365 days and interest rate of 5.20%.

On 10 March 2017, the Company issued beneficiary certificates named “Hengchuan taifu No.9” with a size of issuance of RMB0.2 billion, a term of 364 days and interest rate of 5.20%.

#### 2. Major investment of subsidiaries

On 23 February 2017, Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司) completed the change of business registration for the registered capital, and its registered capital increased to RMB180.00 million from RMB90.00 million. New China Fund contributed RMB56.16 million to subscribe 54,000,000 shares of the new additional shares of Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司). Upon completion of capital increase, the shareholding in Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司) by New China Fund remained 60%.

## Other Material Particulars (Continued)

### **(IV) Significant litigations and arbitrations after the Reporting Period**

None.

### **(V) Merger or disposal of subsidiaries after the Reporting Period**

On 13 February 2017, Hengtai Pioneer, a subsidiary of the Company entered into a letter of intention on acquisition of equity interests, pursuant to which Hengtai Pioneer shall transfer 70% of the equity interests in Beijing Hengtai Puhui Information Service Co., Ltd. (北京恒泰普惠信息服務有限公司), a subsidiary of Hengtai Pioneer at a consideration of no more than RMB19 million. As at 24 March 2017, the transfer of equity interests had not been completed.

### **(VI) Other major subsequent events which may affect the financial conditions, operating results, and cash flow of the Company**

None.

### **(VII) Amendments to the Articles of Association and Rules of Procedure for Board Meetings after the Reporting Period**

None.

### **(VIII) Punishment imposed on the Company or its senior management after the Reporting Period**

On 17 January 2017, the Company received the Notice of Rectification Measures on and the Decision on Issuing a Warning Letter to Hengtai Securities Co., Ltd (Notice on Administrative Regulatory Measures [2017] No. 1) (《關於對恒泰證券股份有限公司採取責令改正、出具警示函措施的決定》(行政監管措施決定書 [2017]1 號)) from the CSRC, and the Prior Notification on Punishment (Ji Gou Bu Han[2017]No.150) (《責令處分事先告知書》(機構部函[2017]150號)) from the Department of Securities and Fund Institution Supervision under the CSRC, pursuant to which, the Company was instructed to impose punishment on Mr. Niu Zhuang, the President of the Company, and Ms. Yu Fang, the Chief Compliance Officer of the Company, in accordance with the provisions of relevant systems of the Company within 10 working days from the date of the notice on rectification.

## Other Material Particulars (Continued)

When the Department of Securities and Fund Institution Supervision under the CSRC conducted the field inspection at the Company in the second half of October in 2016, it noticed the following violations of the Company: (I) certain business departments marketed private asset management products to non-specified objects through WeChat under the namesake of the Company; and (II) there were loopholes in the internal control and management system with regard to the transactional practices of the practitioners when dealing with the shares.

For the problems found in site inspection, the Company immediately took the following measures to prevent re-occurrence of similar events: I. The Company has requested the securities branch to immediately delete the information on private asset management products on the official account and implemented internal punishment against the person in charge of the securities branch. Meanwhile, the Compliance Department of the Company has continuously carried out inspection of the publicity on private funds. The Company will continue to strengthen supervision and include compliance inspection in routine work. II. The Company has issued the Notice on Strengthening Code of Conduct of Practitioners of the Company 《關於加強公司從業人員行為規範的通知》 specifying that any staff of the Company in violation of relevant requirements will be subject to serious accountability under the system of the Company.

Mr. Niu Zhuang, the President of the Company, and Ms. Yu Fang, the Chief Compliance Officer, shall be held accountable for the relevant matters. On 19 January 2017, according to the Accountability Measures of Hengtai Securities Co., Ltd. 《恆泰證券股份有限公司問責處理辦法》, the Company took disciplinary action against Mr. Niu Zhuang, the President of the Company, and Ms. Yu Fang, the Chief Compliance Officer, by circularizing a notice of internal criticism and imposing fines. The Company has submitted the written report on the relevant corporate internal punishment decision to the Department of Securities and Fund Institution Supervision of the China Securities Regulatory Commission in accordance with requirements.

## Other Material Particulars (Continued)

### (IX) Other material matters after the Reporting Period

1. The Securities Association of China issued the Notice Regarding Issuance of Management Standards for Private Investment Fund Subsidiary of Securities Company and Management Standards for Alternative Investment Subsidiary of Securities Company (Zhong Zheng Xie Fa [2016] NO.253) 《關於發佈〈證券公司私募投資基金子公司管理規範〉及〈證券公司另類投資子公司管理規範〉的通知》(中證協發[2016]253號) on 30 December 2016, and issued the Notice Regarding Submission of Rectification Plan for Subsidiary of Securities Company 《關於報送證券公司子公司整改方案的通知》 on 6 February 2017. According to such notices, the Securities Association of China required that all the securities companies and their private investment fund subsidiaries and alternative investment subsidiaries conduct self-examination based on the standards stipulated in the above two notices, and prepare the rectification plans accordingly.

Upon receipt of the above notices, the Company took immediate actions to conduct self-examination strictly on the business scopes, business procedures and internal systems of Hengtai Capital and Hengtai Pioneer, the subsidiaries of the Company, and their respective subsidiaries, based on the requirements of the Securities Association of China. The Company had submitted the Rectification Plans for Subsidiaries of Hengtai Securities Co., Ltd 《恒泰證券股份有限公司子公司整改方案》 to the Securities Association of China within the specified time, and continuously promoted the standardization management of its subsidiaries in accordance with such rectification plans.

2. At the 2016 third general meeting of New China Fund, the Plan for Employee Equity Incentive of New China Fund Management Co., Ltd. was considered and approved. The plan is subject to approval by the CSRC and its implementation should be in line with the approval opinions of the CSRC. In case of approval and implementation of the plan, the equity interest held by the Company in New China Fund will change. However, the shareholding of the Company in it shall not be less than 51%.

# Equity (Capital) Changes And Substantial Shareholders

## I. SHAREHOLDING STRUCTURE

As at the end of the Reporting Period, the Company's share capital was 2,604,567,412 shares, among which 2,153,721,412 shares was held by holders of Domestic Shares, representing 82.69% of the total issued share capital, and 450,846,000 shares was held by holders of H Shares, representing 17.31% of the total issued share capital.

## II. CHANGES IN SHARES

None.

## III. SHAREHOLDERS

At the end of the Reporting Period, the Company had 52 registered Shareholders, including 22 registered holders of Domestic Shares and 30 registered holders of H Shares.

### (I) At the End of the Reporting Period, the Shareholding of More than 5% Shares or Top 10 Shareholders is as Follows:

No.	Name of shareholders	Nature of shareholders	Class of shares	Number of shares held	Percentage	Number of shares changed during the year	Number of shares held without sale limitations	Number of shares held with sale limitations	Pledge or freezing status	
									Status of shares	Number
1	HKSCC Nominees Limited <sup>1</sup>	Overseas legal person	H Shares	450,736,900	17.31%	-	450,736,900	0	-	-
2	Baotou Huazi Industry Co., Ltd.	Social legal person	Domestic Shares	308,000,000	11.83%	-	308,000,000	0	Pledged	150,000,000
3	Beijing Qingyun Intercontinental Technology Co., Ltd.	Social legal person	Domestic Shares	226,961,315	8.71%	-	226,961,315	0	Pledged	55,519,481
4	Beijing Finance Street Xihuan Properties Co., Ltd.	State-own legal person	Domestic Shares	211,472,315	8.12%	-	211,472,315	0	-	-
5	Beijing Huijin Jiaye Investment Co., Ltd.	Social legal person	Domestic Shares	206,182,000	7.92%	-	206,182,000	0	Pledged	51,623,378
6	Beijing Finance Street Investment (Group) Co., Ltd.	State-own legal person	Domestic Shares	165,418,345	6.35%	-	165,418,345	0	-	-
7	Beijing Huarong Infrastructure Investment Co., Ltd.	State-own legal person	Domestic Shares	155,079,698	5.95%	-	155,079,698	0	-	-
8	Tibet Dazi Huifa Investment Co., Ltd.	Social legal person	Domestic Shares	154,000,000	5.91%	-	154,000,000	0	-	-
9	Beijing Hongzhi Huitong Industrial Co., Ltd.	Social legal person	Domestic Shares	154,000,000	5.91%	-	154,000,000	0	-	-
10	Hua Chen Trust Limited Corporation	State-own legal person	Domestic Shares	92,297,832	3.54%	-	92,297,832	0	-	-

Note 1: Shares held by HKSCC Nominees Limited are owned by non-registered H shareholders.

## Equity (Capital) Changes And Substantial Shareholders (Continued)

### (II) Company's Controlling Shareholder and De Facto Controller

The Company does not have any controlling Shareholder and de facto controller.

### (III) Status of Shareholders Holding 10% or More of the Company's Shares

Excluding HKSCC Nominees Limited, the shares held by which were owned by non-registered H shareholders.

Name of shareholders	Legal representative	Date of establishment	Registered capital (RMB0'000)	Registered address	Principal business
Baotou Huazi Industry Co., Ltd.	Song Weidong (宋卫东)	30 November 1998	48,493.2	South Road of National Rare Earth High-Tech Industrial Development Zone, Baotou City, Inner Mongolia Autonomous Region, China	Production and sales of sugar, molasses; operation of export of products and relevant technologies manufactured and developed by itself; operation of importing of materials, machinery, equipment, instruments and spare parts required for production; conducting foreign co-production and compensated trade business

## Equity (Capital) Changes And Substantial Shareholders (Continued)

### IV. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, to the knowledge of the Directors after having made all reasonable enquiries, the following persons (excluding the Directors, Supervisors or senior management of the Company) had any interest or short position in any of the shares or underlying shares of the Company which will have to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of main shareholders	Class of Shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company <sup>1</sup> (%)	Approximate percentage of the Company's total issued Domestic Shares <sup>1</sup> (%)	Long positions/ short positions/ shares available for lending
Huarong Infrastructure <sup>2</sup>	Domestic Shares	Beneficial owner	155,079,698	5.95	7.20	Long positions
Finance Street Capital <sup>2</sup>	Domestic Shares	Interests of controlled corporation	155,079,698	5.95	7.20	Long positions
Finance Street Investment <sup>3</sup>	Domestic Shares	Beneficial owner	165,418,345	6.35	7.68	Long positions
Finance Street Xihuan Properties <sup>4</sup>	Domestic Shares	Beneficial owner	211,472,315	8.12	9.82	Long positions
Huarong Investment <sup>4</sup>	Domestic Shares	Interests of controlled corporation	211,472,315	8.12	9.82	Long positions
SASAC Xicheng District <sup>2, 3, 4</sup>	Domestic Shares	Interests of controlled corporation	531,970,358	20.42	24.70	Long positions
Baotou Huazi <sup>5</sup>	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61	Long positions
Tomorrow Holding <sup>5</sup>	Domestic Shares	Interests of controlled corporation/ parties acting in concert	443,868,000	17.04	20.61	Long positions
Zhongchang Hengyuan <sup>5</sup>	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61	Long positions
Shanghai Yida <sup>5</sup>	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61	Long positions
Huifa Investment <sup>6</sup>	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long positions
Ms. Chen Shan <sup>6</sup>	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Mr. Shen Weimin <sup>6</sup>	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Huijin Jiaye <sup>7</sup>	Domestic Shares	Beneficial owner	206,182,000	7.92	9.57	Long positions
Shanghai Xishida <sup>7</sup>	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Shenzhen Zhongxin <sup>7</sup>	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Shanghai Julu <sup>7</sup>	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Mr. Ci Penghui <sup>7</sup>	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Qingyun Intercontinental <sup>8</sup>	Domestic Shares	Beneficial owner	226,961,315	8.71	10.54	Long positions

## Equity (Capital) Changes And Substantial Shareholders (Continued)

Name of main shareholders	Class of Shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company <sup>1</sup> (%)	Approximate percentage of the Company's total issued Domestic Shares <sup>1</sup> (%)	Long positions/ short positions/ shares available for lending
Ningbo Shike <sup>8</sup>	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Shaanxi Hongya <sup>8</sup>	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Mr. Duan Shuai <sup>8</sup>	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Mr. Sun Yuanlin <sup>8</sup>	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Hongzhi Huitong <sup>9</sup>	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long positions
Shaanxi Tianchen <sup>9</sup>	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Hangzhou Ruisi <sup>9</sup>	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Suzhou Bingtai <sup>9</sup>	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Mr. Zhang Li <sup>9</sup>	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Nice Hill International Limited <sup>10</sup>	H Shares	Beneficial owner	39,540,000	1.52	8.77	Long positions
Mason Investments Limited <sup>10</sup>	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Assets Limited <sup>10</sup>	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Financial Services Group Limited <sup>10, 11</sup>	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Financial Services Group Limited <sup>10, 12</sup>	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Financial Holdings Limited <sup>10</sup>	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions

### Notes:

- As at 31 December 2016, there was a total of 2,604,567,412 shares of the Company in issue, comprising 2,153,721,412 Domestic Shares and 450,846,000 H Shares.
- Huarong Infrastructure is wholly-owned by Finance Street Capital, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Finance Street Capital and SASAC Xicheng District is deemed to be interested in 155,079,698 Domestic Shares held by Huarong Infrastructure.
- Finance Street Investment is wholly-owned by SASAC Xicheng District. Therefore, SASAC Xicheng District is deemed to be interested in 165,418,345 Domestic Shares held by Finance Street Investment.
- 90.00% of the equity interest in Finance Street Xihuan Properties is held by Huarong Investment, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Huarong Investment and SASAC Xicheng District is deemed to be interested in 211,472,315 Domestic Shares held by Finance Street Xihuan Properties.
- Tomorrow Holding, Zhongchang Hengyuan and Shanghai Yida have entered into an agreement to act in concert in respect of their shareholding in our Company. Therefore, each of Tomorrow Holding, Baotou Huazi (which is held by Tomorrow Holding as to approximately 54.32%), Zhongchang Hengyuan and Shanghai Yida is deemed to be interested in 443,868,000 Domestic Shares (being an aggregate of 308,000,000, 75,100,000 and 60,768,000 Domestic Shares held by Baotou Huazi, Zhongchang Hengyuan and Shanghai Yida, respectively).

## Equity (Capital) Changes And Substantial Shareholders (Continued)

6. 53.33% and 46.67% of the equity interest in Huifa Investment is held by Mr. Shen Weimin (沈為民) and Ms. Chen Shan (陳姍), respectively. Therefore, each of Mr. Shen Weimin (沈為民) and Ms. Chen Shan (陳姍) is deemed to be interested in 154,000,000 Domestic Shares held by Huifa Investment.
7. 99.99% of the equity interest in Huijin Jiaye is held by Shanghai Xishida. 95.00% of the equity interest in Shanghai Xishida is held by Shenzhen Zhongxin. 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35.00% of the equity interest in Shanghai Julu is held by Mr. Ci Penghui (慈鵬輝). Therefore, each of Shanghai Xishida, Shenzhen Zhongxin, Shanghai Julu, and Mr. Ci Penghui (慈鵬輝) is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.
8. 70% of the equity interest in Qingyun Intercontinental is held by Ningbo Shike, which is in turn held by Shaanxi Hongya as to 99.60%. Shaanxi Hongya is held by Mr. Duan Shuai (段帥) and Mr. Sun Yuanlin (孫元林) as to 49% and 51%, respectively. Moreover, 0.40% of the equity interest in Ningbo Shike is held by Mr. Sun Yuanlin. Therefore, each of Ningbo Shike, Shaanxi Hongya, Mr. Duan Shuai and Mr. Sun Yuanlin is deemed to be interested in 226,961,315 Domestic Shares held by Qingyun Intercontinental.
9. 97.08% of the equity interest in Hongzhi Huitong is held by Shaanxi Tianchen. 98.67% of the equity interest in Shaanxi Tianchen is held by Hangzhou Ruisi. 94.00% of the equity interest in Hangzhou Ruisi is held by Suzhou Bingtai. 81.82% of the equity interest in Suzhou Bingtai is held by Mr. Zhang Li (張利). Therefore, each of Shaanxi Tianchen, Hangzhou Ruisi, Suzhou Bingtai and Mr. Zhang Li (張利) is deemed to be interested in 154,000,000 Domestic Shares held by Hongzhi Huitong.
10. Nice Hill International Limited is wholly-owned by Mason Investments Limited, which is in turn wholly-owned by Mason Assets Limited; while Mason Assets Limited is wholly-owned by Mason Financial Services Group Limited (which is located in the Marshall Islands); Mason Financial Services Group Limited (which is located in the Marshall Islands) is wholly-owned by Mason Financial Services Group Limited (which is located in the Cayman Islands), which is in turn wholly-owned by Mason Financial Holdings Limited. Therefore, each of Mason Investments Limited, Mason Assets Limited, Mason Financial Services Group Limited, Mason Financial Services Group Limited and Mason Financial Holdings Limited is deemed to be interested in 39,540,000 H Shares held by Nice Hill International Limited.
11. Mason Financial Services Group Limited referred is located in Marshall Islands.
12. Mason Financial Services Group Limited referred is located in Cayman Islands.

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

### V. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's listed securities during the Reporting Period.

### VI. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association and the relevant PRC laws which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

# Directors, Supervisors, Senior Management and Employees

## I. BASIC INFORMATION ABOUT INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE LEAVING OFFICE DURING THE REPORTING PERIOD

### (I) Directors

No.	Name	Gender	Age	Positions	Term of office	Total remuneration (before tax) received from the Company during the Reporting Period	Remarks
						(RMB in thousand)	
1	Pang Jiemin (龐介民)	Male	45	Chairman of the Board and Executive Director	From 24 November 2014 to 23 November 2017	4,068	-
2	Ju Jin (鞠瑾)	Male	53	Non-executive Director	From 24 November 2014 to 25 April 2016	-	Resigned on 25 April 2016
3	Wu Yigang (吳誼剛)	Male	57	Vice chairman of the Board and Executive Director	From 24 November 2014 to 23 November 2017	2,057	Appointed as executive Director and vice chairman of the Board on 24 November 2014 and 26 June 2015, respectively
4	Zhang Tao (張濤)	Male	38	Non-executive Director	From 24 November 2014 to 23 November 2017	50	-
5	Chen Guanglei (陳廣壘)	Male	47	Non-executive Director	From 24 November 2014 to 23 November 2017	50	-
6	Sun Chao (孫超)	Male	33	Non-executive Director	From 8 January 2015 to 23 November 2017	50	-
7	Peng Diyun (彭迪雲)	Male	53	Independent non-executive Director	From 24 November 2014 to 23 November 2017	100	-
8	Zhou Jianjun (周建軍)	Female	47	Independent non-executive Director	From 3 April 2015 to 23 November 2017	100	-
9	Lam Sek Kong (林錫光)	Male	57	Independent non-executive Director	From 3 April 2015 to 23 November 2017	100	-

## Directors, Supervisors, Senior Management and Employees (Continued)

### (II) Supervisors

No.	Name	Gender	Age	Positions	Term of office	Total remuneration (before tax) received from the Company during the Reporting Period (RMB in thousand)	Remarks
1	Guo Liwen (郭力文)	Male	56	Chairman of Supervisory Committee	From 24 November 2014 to 23 November 2017	1,937	–
2	Pei Jingjing (裴晶晶)	Female	33	Shareholder representative Supervisor	From 8 January 2015 to 23 November 2017	30	–
3	Wang Hui (王慧)	Male	43	Employee representative Supervisor	From 24 November 2014 to 23 November 2017	1,005	–

### (III) Senior management

No.	Name	Gender	Age	Positions	Term of office	Total remuneration (before tax) received from the Company during the Reporting Period (RMB in thousand)	Remarks
1	Niu Zhuang (牛壯)	Male	44	President	From 26 June 2015 to 23 November 2017	3,624	Served as the executive vice president of the Company from September 2012 to June 2015
2	Zhang Wei (張偉)	Male	46	Vice President, secretary of the Board	From 4 December 2014 to 23 November 2017	2,698	–
3	Wang Haibing (王海兵)	Male	44	Chief financial officer	From 4 December 2014 to 11 October 2016	1,473	Resigned on 11 October 2016
4	Yu Fang (于芳)	Female	36	Chief compliance officer and chief risk officer	From 4 December 2014 to 23 November 2017	1,965	–
5	Fu Lixin (付立新)	Female	50	Vice President	From 4 December 2014 to 23 November 2017	2,195	–
6	Wu Lihui (武麗輝)	Female	45	Vice President	From 4 December 2014 to 23 November 2017	2,346	–
7	Zhao Peiwu (趙培武)	Male	52	Vice President	From 4 December 2014 to 23 November 2017	2,168	–
8	Deng Hao (鄧浩)	Male	41	Vice President	From 4 December 2014 to 31 May 2016	780	Resigned on 31 May 2016
9	Huang Weiguo (黃偉國)	Male	39	Vice President	From 8 December 2015 to 23 November 2017	1,534	–
10	Liu Quansheng (劉全勝)	Male	41	Vice President	From 7 July 2016 to 23 November 2017	1,810	–
11	Yang Shufei (楊淑飛)	Female	43	Chief financial officer	From 11 October 2016 to 23 November 2017	499	–

## Directors, Supervisors, Senior Management and Employees (Continued)

### II. APPOINTMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHAREHOLDERS' COMPANIES AND OTHER COMPANIES

#### (I) Appointment in Shareholders' Companies

No.	Name	Position in the Company	Employing unit	Position in Shareholders' Company	Term of office
1	Zhang Tao (張濤)	Non-executive Director	Baotou Huazi Industry Co., Ltd.	Chairman of Supervisory Committee	May 2008 to present
2	Sun Chao (孫超)	Non-executive Director	Beijing Qingyun Intercontinental Technology Co., Ltd. Dalian Ben Hao Cheng Industrial Co., Ltd. (大連本浩成實業有限公司)	Chairman and general manager General manager	December 2013 to present August 2013 to present
3	Chen Guanglei (陳廣壘)	Non-executive Director	Beijing Finance Street Investment (Group) Co., Ltd.	Chief economist	July 2012 to present
4	Pei Jingjing (裴晶晶)	Shareholder representative Supervisor	Beijing Huijin Jiaye Investment Co., Ltd. Shanghai Xishida Electronics Ltd. (上海喜仕達電子科技技術有限公司)	Executive director and general manager Executive director	February 2013 to present April 2012 to present

## Directors, Supervisors, Senior Management and Employees (Continued)

### (II) Appointment in Other Units

No.	Name	Position in the Company	Employing unit	Position in Other Units	Term of office
1	Chen Guanglei (陳廣壘)	Non-executive Director	Finance Street Holdings Co., Ltd.	Supervisor	August 2000 to present
			Great Wall Life Insurance Company Limited	Director	September 2016 to present
			Zhengzhou Qianwei Yangchu Food Company Limited	Independent Director	January 2017 to present
2	Peng Diyun (彭迪雲)	Independent non-executive Director	Nanchang University	Dean of School of Public Administration in Nanchang University	June 2014 to present
3	Zhou Jianjun (周建軍)	Independent non-executive Director	Beijing Zhongchuan Xinju Accounting Firm Company Limited	Chief accountant	April 2009 to present
4	Lam Sek Kong (林錫光)	Independent non-executive Director	Messrs. S.K. Lam, Alfred Chan & Co.	Partner	June 1996 to present
			APT Satellite Holdings Limited	Independent Non-executive Director	July 2007 to present
5	Pang Jiemin (龐介民)	Chairman of the Board and Executive Director	Inner Mongolia Securities & Futures Association in China	President	April 2016 to present

### III. BIOGRAPHICAL DETAILS OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (I) Directors

**Mr. Pang Jiemin** (龐介民), aged 45, has been our Director and the chairman of the Board and legal representative since December 2010. Before joining our Group, Mr. Pang served in Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司) as a deputy general manager from May 2010 to December 2010. Mr. Pang graduated from Hebei University of Economics and Business (河北經貿大學, formerly known as Hebei College of Finance and Economics (河北財經學院)) in Shijiazhuang, Hebei Province, the PRC with a bachelor's degree of finance in July 1993. He then obtained a master's degree of economics from Central Institute of Finance and Banking (中央財政金融學院, now known as Central University of Finance and Economics (中央財經大學)) in Beijing, the PRC in March 1996. Mr. Pang obtained a doctor's degree of economics in Southwestern University of Finance and Economics (西南財經大學) in Chengdu, Sichuan Province, the PRC in January 2005. From December 2007 to May 2008, Mr. Pang was a visiting post-doctor researcher at the ICMA Centre of University of Reading in the United Kingdom. Mr. Pang was granted the qualification as economist (經濟師資格) by Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) in November 1997. He also passed the 21st qualification test for senior management of securities institutions organized by the SAC in December 2010.

**Mr. Wu Yigang** (吳誼剛), aged 57, has been our Director and the vice chairman of our Board since October 2008 and June 2015, respectively. Mr. Wu is currently responsible for formulating our corporate and business strategies and making major corporate and operational decisions and responsible for our corporate governance matters. Mr. Wu served as the president of our Company from April 2003 to June 2015. Mr. Wu completed a college course in radio fax and graduated from Inner Mongolia University (內蒙古大學) in Hohhot, Inner Mongolia, the PRC in July 1987. He completed an undergraduate course in economics and management and graduated from Inner Mongolia Autonomous Region Party Committee Party School (中共內蒙古自治區委員會黨校) in Hohhot, Inner Mongolia, the PRC in January 1997. Mr. Wu then completed a postgraduate course in market economy and graduated from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC in November 1998.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Zhang Tao** (張濤), aged 38, has been a Director of our Company since November 2008. Concurrently, he has also been assuming the position of chairman of the board of supervisors in Baotou Huazi (a substantial shareholder of our Company) since May 2008. Before joining our Group, he served in Baotou Huazi as a director, in charge of investment and financing from September 2001 to April 2008. Mr. Zhang graduated from The Open University of China (中央廣播電視大學) in Beijing, the PRC and majored in law in May 2005.

**Mr. Chen Guanglei** (陳廣壘), aged 47, has been a Director of our Company since September 2012. He has been assuming the position of a chief economist in Finance Street Investment since July 2012. Before joining our Group, Mr. Chen worked in Henan Pingdingshan Branch of China Construction Bank (中國建設銀行河南省平頂山分行) from August 1992 to August 2000. He then worked in Henan Branch of China Construction Bank (中國建設銀行河南省分行) from August 2000 to August 2002. Mr. Chen also worked in Finance Street Holdings Co., Ltd. (金融街控股股份有限公司) and Finance Street Huizhou Properties Co., Ltd. (金融街惠州置業有限公司), as the head of finance department of Finance Street Huizhou Properties Co., Ltd. from January 2005 to August 2005. Subsequently, Mr. Chen served in Zhongjin Gold Corporation Limited (中金黃金股份有限公司, listed on Shanghai Stock Exchange, stock code: 600489) as a financial administrator from April 2008 to May 2011. From May 2011 to June 2012, Mr. Chen worked in Finance Street Investment as a deputy chief accountant. Mr. Chen graduated from Henan University of Animal Husbandry and Economy (河南牧業經濟學院, formerly known as Henan Business College (河南商業專科學校)) in Zhengzhou, Henan Province, the PRC with a college's diploma majoring in accounting in July 1992. Then he graduated from Henan University of Economics and Law (河南財經政法大學, formerly known as Henan College of Finance and Economics (河南財經學院)) in Zhengzhou, Henan Province, the PRC with a bachelor's degree majoring in accounting in December 2000 and obtained a bachelor's degree majoring in finance from Zhengzhou University (鄭州大學) in Zhengzhou, Henan Province, the PRC in July 2002. Subsequently, Mr. Chen obtained a master's degree majoring in accounting from Research Institute for Fiscal Science under the Ministry of Finance (財政部財政科學研究所) in Beijing, the PRC in July 2004. Mr. Chen also obtained a doctor's degree majoring in accounting from Central University of Finance and Economics (中央財經大學) in Beijing, the PRC in June 2008. Mr. Chen obtained a certificate of postdoctoral from Research Institute for Fiscal Science under the Ministry of Finance (財政部財政科學研究所) in Beijing, the PRC in September 2014, majoring in practical economics. He has been accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and a certified tax agent by the Office of Personnel of Henan Province (河南省人事廳) in December 2002.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Sun Chao** (孫超), aged 33, has been a Director of our Company since January 2015. He has concurrently been acting as the general manager of Dalian Ben Hao Cheng Industrial Co., Ltd. (大連本浩成實業有限公司) and the general manager of Qingyun Intercontinental in charge of designing, negotiating and managing the investment project since August 2013 and December 2013, respectively. Before joining our Group, he served as an assistant to general manager in charge of industry research and a deputy general manager in charge of direct project investment management in Dalian Ben Hao Cheng Industrial Co., Ltd. (大連本浩成實業有限公司) from July 2008 to September 2010 and from September 2011 to August 2013, respectively. He also worked as a deputy general manager in charge of project investment management in Qingyun Intercontinental from September 2012 to December 2013. Mr. Sun graduated from East China Normal University (華東師範大學) in Shanghai, the PRC with a bachelor's degree majoring in software engineering in July 2008. He obtained a master's degree of arts majoring in international financial analysis from University of Newcastle upon Tyne in Newcastle, the United Kingdom in September 2011.

**Mr. Peng Diyun** (彭迪雲), aged 53, has been an independent Director since August 2012. Concurrently, Mr. Peng has been teaching in School of Economics and Management in Nanchang University (南昌大學經濟與管理學院) since July 1984 and he has served as a lecturer, a deputy professor, a professor and a doctor supervisor successively. Mr. Peng also has been serving as a dean of School of Public Administration in Nanchang University (南昌大學公共管理學院) since June 2014. Prior to that, he served as a deputy director in Department of Economics of Nanchang University (南昌大學經濟學系) from January 1997 to April 2002. Mr. Peng served as a deputy dean of Graduate School of Nanchang University (南昌大學研究生院) from June 2007 to April 2008. Mr. Peng served as a party secretary in Graduate School of Nanchang University (南昌大學研究生院) from April 2008 to August 2010, and then served as a party secretary in School of Science in Nanchang University (南昌大學理學院) from August 2010 to June 2014. Mr. Peng graduated from East China Normal University (華東師範大學) in Shanghai, the PRC with a bachelor's degree majoring in politics and economics in October 1984. He graduated from a postgraduate course of industrial economics from Nanchang University (南昌大學) in Nanchang, Jiangxi Province, the PRC, in July 2001. He also obtained a doctor's degree majoring in management science and engineering from Nanchang University (南昌大學) in Nanchang, Jiangxi Province, the PRC in December 2010. He became a deputy professor in monetary banking and a professor in economics in June 1995 and March 2000, respectively. In addition, Mr. Peng served as the director of Industry Economics Institute in Central China's Economic and Social Development Research Center of Nanchang University (南昌大學中國中部經濟社會發展研究中心產業經濟研究所). He also has served as a consulting expert on monetary policy in Nanchang center sub-branch of People's Bank of China

## Directors, Supervisors, Senior Management and Employees (Continued)

(中國人民銀行南昌市中心支行) from April 2008 to November 2011 and a standing director of Finance Society in Jiangxi Province (江西省金融學會) from June 2009. Mr. Peng was certificated as a registered consulting expert in management by the Consulting Association of Jiangxi Province (江西省諮詢業協會) in November 2012. He was awarded a Certificate of Special Government Allowance by the State Council of the People's Republic of China (中華人民共和國國務院) in March 2013, an Advanced Worker of National Educational System by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) and the Ministry of Education of the People's Republic of China (中華人民共和國教育部) in September 2014 and the Excellent Ideological and Political Education Worker of National Universities by the Ministry of Education of the People's Republic of China (中華人民共和國教育部) in September 2014.

**Ms. Zhou Jianjun** (周建軍), aged 47, has been an independent Director since April 2015. Concurrently, Ms. Zhou has been assuming the position of a chief accountant in Beijing Zhongchuan Xinju Accounting Firm Company Limited (北京中川鑫聚會計師事務所有限責任公司) since April 2009. Ms. Zhou graduated from Northwest Agriculture University (西北農業大學) (now known as Northwest A&F University (西北農林科技大學)) in Shaanxi, the PRC with a bachelor's degree majoring in soil and plant nutriology in July 1992. Ms. Zhou graduated from Lanzhou University of Finance and Economics (蘭州商學院) in Lanzhou, Gansu Province, the PRC in June 1999 and majored in accounting. Ms. Zhou was qualified as China's certified tax agent and certified public accountant in November 2002 and March 2004, respectively. Ms. Zhou worked in Lanzhou Chemical Industry Company (蘭州化學工業公司, which was merged by absorption by China National Petroleum Lanzhou Petrochemical Corporation (中石油蘭州石油化工公司)) as an accountant and a chief accountant from July 1992 to November 2001. She served as an auditor in Gansu Wulian United Accounting Firm (甘肅五聯聯合會計師事務所) (now known as Gansu branch of Ruihua Accounting Firm (瑞華會計師事務所(特殊普通合伙)甘肅分所)) from November 2001 to September 2004. Then she worked in Ningbo Kexin Accounting Firm (寧波科信會計師事務所有限公司) as a project auditing manager from September 2004 to November 2006. She also worked as a finance manager in Kongchuang (Beijing) Technology Company Limited (控創(北京)科技有限公司), from November 2006 to April 2009.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Dr. Lam Sek Kong** (林錫光), aged 57, has been an independent Director since April 2015. Concurrently, Dr. Lam has been an independent non-executive director of APT Satellite Holdings Limited (亞太衛星控股有限公司) (the issued shares of which are listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1045) since July 2007, in which he also served as the chairman of the nomination committee and a member of each of the audit committee and remuneration committee. Dr. Lam is a partner of Messrs. S.K. Lam, Alfred Chan & Co. He has been practicing law in Hong Kong since 1987. Dr. Lam is a member of the Hong Kong Society of Notary Public, a member of the China Appointed Attesting Officers Association in Hong Kong and a member of the Chartered Institute of Arbitrators (UK). Dr. Lam is also admitted as barrister and solicitor of the Supreme Court of Australian Capital Territory, legal practitioner of the Supreme Court of New South Wales and barrister in federal court of Australia. Dr. Lam obtained a bachelor's degree and a master's degree of laws from University of Hong Kong, in Hong Kong, in November 1984 and November 1991, respectively. Dr. Lam also obtained a master's degree in economic law from Peking University (北京大學), in Beijing, the PRC in June 2004 and a Ph. D. degree in civil and commercial law from Tsinghua University (清華大學), in Beijing, the PRC in January 2007.

### (II) Supervisors

**Mr. Guo Liwen** (郭力文), aged 56, has been a Supervisor and the chairman of the Supervisory Committee since December 2010. Mr. Guo joined our Company in June 1999 and served as the general manager of coordination development department from June 1999 to October 2008. Mr. Guo served as a director of our Company from October 2008 to November 2011. Mr. Guo graduated from a graduate course of philosophy from Inner Mongolia University (內蒙古大學) in Hohhot, Inner Mongolia, the PRC in July 1984.

**Ms. Pei Jingjing** (裴晶晶), aged 33, has been a Supervisor since January 2015. She has also been assuming positions of general manager and executive director both in Shanghai Xishida Electronics Ltd. (上海喜仕達電子技術有限公司) and Huijin Jiaye since April 2012 and February 2013, respectively. Ms. Pei graduated from Beihang University (北京航空航天大學) in Beijing, the PRC with a bachelor's degree majoring in economics in July 2007. Ms. Pei is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye in our Company immediately after the completion of the Global Offering.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Wanghui** (王慧), aged 43, has been an employee representative Supervisor since September 2012, a deputy manager of office of our Board from July 2009 to January 2017 and manager of office of our Board since January 2017. Concurrently, he has also been a supervisor of Hengtai Changcai, Hengtai Pioneer, Hengtai Futures, Shanghai Yingwo Investment Management Co, Ltd., Beijing Hengtai Hongze Investment Co., Ltd., Shanghai Hongdian Investment Management Co., Ltd. and Beijing Hengtai Hengzhong Information Service Co., Ltd. since October 2012, January 2013, June 2013, July 2013, April 2015, May 2015 and July 2015, respectively. Before joining our Group, Mr. Wang served successively as a deputy chief of staff and deputy director of office of the board in Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司) from October 2005 to July 2009. Mr. Wang graduated from East China University of Metallurgy (華東冶金學院) in Ma'anshan, An'hui Province, the PRC with a bachelor's degree majoring in ferrous metallurgy in July 1995. He obtained a master's degree majoring in business administration from Beijing Jiaotong University (北京交通大學) in Beijing, the PRC in May 2004.

### (III) Senior Management

**Mr. Niu Zhuang** (牛壯), aged 44, has been the president of the Company since June 2015 and is currently mainly responsible for formulating our corporate and business strategies and making major corporate and operational decisions, being fully responsible for our overall operation and management and execution of our Board resolutions. Mr. Niu served as the chief financial officer and an executive vice president of our Company from February 2004 to September 2012 and from September 2012 to June 2015, respectively. Concurrently, Mr. Niu also has served as legal representative of each of Inner Mongolia Hengtai Shengda Investment Management Co., Ltd. and Hengtai Capital as well as executive director and legal representative of Shanghai Yingwo Investment Management Co, Ltd. from November 2015, December 2015 and September 2016, respectively. Mr. Niu graduated from Beijing Institute of Fashion Technology (北京服裝學院) (in Beijing, the PRC) with a bachelor's degree majoring in industrial management engineering in July 1993. He obtained a master's degree majoring in accounting from Renmin University of China (中國人民大學) in Beijing, the PRC in January 2005.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Zhang Wei** (張偉), aged 46, has been a vice president, the secretary of the Board and one of the joint company secretaries since September 2008, November 2011 and March 2015, respectively. He is currently in charge of the president office and the Board office, management of our OTC business department and the operation of Hengtai Changcai. Concurrently, Mr. Zhang has been a director in Hengtai Futures and an executive director and the legal representative in Hengtai Changcai since December 2009 and June 2014, respectively. Mr. Zhang served as the president assistant and a vice president of the Company from August 2002 to November 2006 and from November 2006 to September 2008, respectively. Before joining the Group, Mr. Zhang served as a manager of general management department in China National Heavy Duty Truck Finance Co., Ltd (中國重汽財務有限公司) from July 1994 to May 1999. Mr. Zhang worked in China National Heavy Duty Truck Group Jinan Truck Co., Ltd. (中國重汽集團濟南卡車公司) as a secretary of the Communist Youth League from May 1999 to August 2002. Mr. Zhang graduated from Shandong University (山東大學) in Ji'nan, Shandong Province, the PRC with a bachelor's degree majoring in public finance in July 1994.

**Ms. Yu Fang** (于芳), aged 36, has been the chief compliance officer and chief risk officer since January 2013 and April 2014, respectively. She is currently in charge of our legal and compliance department, risk management department and audit department and our corporate affairs of compliance, legal, risk management and internal audit. Concurrently, Ms. Yu also has been a director of New China Fund since August 2015. Before joining our Group, Ms. Yu served in New Times Securities Company (新時代證券公司) as the general manager assistant, in charge of legal management department and audit department and a vice president, in charge of compliance manage department from June 2008 to June 2012 and from June 2012 to December 2012, respectively. Ms. Yu graduated from Hunan University (湖南大學) in Changsha, Hunan Province, the PRC with a bachelor's degree majoring in law in June 2003.

**Ms. Fu Lixin** (付立新), aged 50, has been a vice president since May 2008. She is currently responsible for the operation of Hengtai Futures. She has also been assuming positions of the chairman of the board and legal representative of Hengtai Futures as well as executive director and legal representative of Hengtai Yingwo Asset Management Co. Ltd since December 2009 and February 2016, respectively. Ms. Fu served as a president assistant of our Company, in charge of brokerage business department, research and e-commerce from October 2003 to May 2008. Before joining our Group, Ms. Fu worked in Fuyou Securities Brokers Co., Ltd (富友證券經紀有限責任公司) as a manager and a vice president from April 1993 to October 2003. Ms. Fu graduated from Tianjin University of Finance and Economics (天津財經大學, formerly known as Tianjin College of Finance and Economics (天津財經學院)) in Tianjin, the PRC with a bachelor's degree majoring in statistics in July 1988. She obtained a master's degree majoring in politics and economics from Harbin Institute of Technology (哈爾濱工業大學) in Harbin, Heilongjiang Province, the PRC in March 1994.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Ms. Wu Lihui** (武麗輝), aged 45, has been a vice president since July 2012. She is currently responsible for the financial market department and supervision of the management of Hengtai Pioneer. Concurrently, Ms. Wu has been assuming positions of a supervisor in Hengtai Capital, a supervisor in Shenzhen Hengtai Capital Equity Investment Fund Management Co. Ltd., an executive director and the legal representative in Hengtai Pioneer and an executive director and the legal representative of Beijing Hengtai Hongze Investment Co., Ltd. since June 2013, September 2013, January 2013 and April 2015, respectively. Ms. Wu served successively as a director of office of the Board and the assistant to the chairman of the Board of our Company from November 2009 to July 2012. Before joining our Group, Ms. Wu worked in Guantao Law Firm (觀韜律師事務所) in Beijing as a lawyer and a partner from February 2000 to December 2007. Then she assumed the position of a deputy general manager in Finance Street Xihuan Properties from January 2008 to October 2009. Ms. Wu graduated from China University of Mining and Technology (中國礦業大學) in Xuzhou, Jiangsu Province, the PRC with a bachelor's degree majoring in material management project in July 1993 and obtained a master's degree majoring in civil law from Heilongjiang University (黑龍江大學) in Harbin, Heilongjiang Province, the PRC in July 1996.

**Mr. Zhao Peiwu** (趙培武), aged 52, has been a vice president of the Company since September 2009. He is currently responsible for the management of the brokerage business department and supervision of the operation of the Changchun branch office, and all of our securities branches as well as the asset custody department and institutional investment consultant department. Mr. Zhao consecutively served as a deputy director of operating department of the Company from October 1988 to September 1989, the general manager of the sales department from April 1993 to April 2000, a director of president office from April 2000 to January 2004, a manager of brokerage department from January 2004 to March 2008 and an assistant to the president of the Company from March 2008 to September 2009, respectively. Mr. Zhao also served in Hengtai Changcai as the general manager from September 2009 to July 2011 and from July 2013 to June 2014. He also acted as an executive director and the legal representative for Hengtai Changcai from July 2011 to June 2014. Mr. Zhao finished his three-year financial courses in Shanxi Institute of Finance and Economics (陝西財經學院) (now known as Schools of Economics and Finance of Xi'an Jiaotong University (西安交通大學經濟與金融學院)) in Xi'an, Shaanxi Province, the PRC in July 1994. Mr. Zhao graduated from The Open University of China (中央廣播電視大學) in Beijing, the PRC with a bachelor's degree (part-time) majoring in finance in December 2012.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Huang Weiguo** (黃偉國), aged 39, has been a vice president of the Company since December 2015. He is currently responsible for the management of Shanghai Hongdian Investment Management Co., Ltd. (上海泓典投資管理有限公司), and he served as an executive director and legal representative of Shanghai Hongdian Investment Management Co. Ltd. since April 2015. Before joining the Group, Mr. Huang worked in the head office of investment banking of Guosen Securities, the head office of investment banking of Industrial Securities and the head office of investment banking of Pacific Securities from December 2000 to August 2006, August 2006 to March 2007 and March 2007 to July 2010, respectively. He served as the deputy general manager and the secretary to the board of Shanghai Kanda Biotechnology Co., Ltd. (上海康岱生物技術股份有限公司) from July 2010 to May 2012 and as the deputy general manager and the secretary to the board of Wuxi Lihu Corporation Limited (無錫蠡湖增壓技術股份有限公司) from May 2012 to October 2014. Then he served as the president of Jinduo (Shanghai) Asset Management Co., Ltd. (晉多(上海)資產管理有限公司) from October 2014 to April 2015. Mr. Huang graduated from the School of Finance of Central University of Finance and Economics with a bachelor's degree majoring in international finance in June 1998. Mr. Huang graduated from finance department of Shanghai University of Finance and Economics with a master's degree majoring in currency banking in July 2003.

**Mr. Liu Quansheng** (劉全勝), aged 41, has been a vice president of the Company since 31 May 2016. He heads our internet finance department and institutional trading department. Mr. Liu served as an assistant in the computer department and manager of the securities service department of the Company from July 1999 to February 2003 and from February 2003 to March 2004, respectively. Mr. Liu served as the assistant to general manager of brokerage business department from March 2004 to March 2006, assistant to general manager of Baotou Gangtie Street Securities Branch (包頭鋼鐵大街營業部) from March 2006 to September 2007, general manager of Linhe District Shengli North Road Securities Branch(臨河勝利北路營業) from September 2007 to September 2009, and general manager and assistant to president of brokerage business management headoffice from September 2009 to December 2011 and from December 2011 to May 2016, respectively. Concurrently, Mr. Liu has served as an executive director and legal representative of each of Beijing Hengtai Puhui Information Service Co., Ltd. and Beijing Hengtai Hengzhong Information Service Co., Ltd. since April 2015 and July 2015, respectively. Mr. Liu graduated from Inner Mongolia University with a bachelor's degree, majoring in computational mathematics and application software in July 1999.

## Directors, Supervisors, Senior Management and Employees (Continued)

**Ms. Yang Shufei** (楊淑飛), aged 43, has been the chief financial officer of the Company since 11 October 2016. Before joining the Group, Ms. Yang served as a staff member of the management department and fund department of Aerospace Trust Investment Co., Ltd. (航天信託投資有限責任公司) from July 1995 to September 2001. After then, Ms. Yang worked in CASIC Finance Co., Ltd. (航天科工財務有限責任公司) and served as a staff member of the investment department from October 2001 to September 2002, the manager of the clearing department from October 2002 to March 2005, the manager of the risk management department from April 2005 to June 2008 and chief accountant, general counsel, board secretary and vice president consecutively during the period from July 2008 to November 2015. From November 2015 to June 2016, Ms. Yang served as the chief financial officer of Huahao Xinlian (Beijing) Kemao Co., Ltd. (華浩信聯(北京)科貿有限公司). Ms. Yang graduated from Renmin University of China with a bachelor degree in international finance in July 1995 and obtained a master degree in economics from Peking University in November 2005 and an executive master degree of business administration from Tsinghua University in July 2010.

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (I) Changes in Directors

Mr. Ju Jin tendered his resignation as a non-executive Director, the chairman and a member of the Risk Control and Supervisory Committee and a member of the Remuneration and Nomination Committee of the Company with effect from 25 April 2016 to focus on his other business engagements.

#### (II) Changes in Supervisors

Nil.

#### (III) Changes in Senior Management

On 31 May 2016, the proposal in relation to Mr. Deng Hao's resignation as the vice president of the Company was considered and approved at the 34th extraordinary meeting of the 3rd session of the Board. Mr. Deng Hao resigned as the vice president of the Company due to focus on his other engagements.

## Directors, Supervisors, Senior Management and Employees (Continued)

On 31 May 2016, the proposal for the appointment of Mr. Liu Quansheng as a vice president of the Company was considered and approved at the 34th extraordinary meeting of the 3rd session of the Board, pursuant to which Mr. Liu Quansheng was appointed as a vice president of the Company with a term of office to be the same as that of the third session of the Board, subject to the verification and approval of the relevant regulatory authority. On 7 July 2016, the Company received the Approval of the Qualification of Senior Management Member of Hengtai Securities Co., Ltd (Nei Zheng Jian Xu Ke [2016] No. 9) (關於核准恒泰證券股份有限公司經理層高級管理人員任職資格的批覆) (內證監許可[2016] 9號) issued by the Inner Mongolia Regulatory Bureau of the CSRC, which approved the qualification of Mr. Liu Quansheng as a senior management member of the Company.

On 11 October 2016, the proposal in relation to Mr. Wang Haibing's resignation as the chief financial officer of the Company was considered and approved at the 37th extraordinary meeting of the 3rd session of the Board. Mr. Deng Hao resigned as the chief financial officer of the Company since he wished to focus on his own career development.

On 11 October 2016, the proposal in relation to the appointment of Ms. Yang Shufei as the chief financial officer of the Company was considered and approved at the 37th extraordinary meeting of the 3rd session of the Board, pursuant to Ms. Yang Shufei was appointed as the chief financial officer of the Company with a term of office to be the same as that of the third session of the Board.

## V. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (I) Remuneration System and Decision-making Procedures of Directors, Supervisors and Senior Management

The remuneration of the Directors shall be proposed by the Remuneration and Nomination Committee for consideration and approval by the Board, then submitted to the general meeting for approval; the remuneration of the Supervisors shall be reviewed and approved by the general meeting; and the remuneration of the senior management of the Company shall be proposed by the Remuneration and Nomination Committee to the Board for approval.

## Directors, Supervisors, Senior Management and Employees (Continued)

### (II) Basis for Determining the Remuneration of Directors, Supervisors and Senior Management

Directors and Supervisors who have not entered into any employment contracts with the Company are entitled to allowances, and those who have entered into any employment contracts with the Company shall obtain remuneration in accordance with the requirement of the Company.

The remuneration of the senior management of the Company shall be proposed by the Remuneration and Nomination Committee in accordance with the remuneration and assessment system with reference to operating results, responsibilities and the comparable level of the industry and market for consideration and approval by the Board.

Payment of more than 40% of annual performance-based remuneration for full-time Directors, Supervisors and senior management of the Company shall be deferred for a period of at least three years. The deferred payment of remuneration shall be divided equally. The specific proportion of deferred payment and the period of deferred payment shall be reviewed and determined by the Board. The Board will formulate and implement the specific plan for deferred payment of annual performance-based remuneration of business managers according to the requirements of these measures on an annual basis. The Company does not pay non-cash compensation.

### (III) Changes in Shareholdings of Directors, Supervisors and Senior Management

During the Reporting Period, save as Ms. Pei Jingjing (裴晶晶), none of the Directors, Supervisors and senior management of the Company held any shares, share options or restricted shares of the Company.

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

See "I. Basic Information About Incumbent Directors, Supervisors and Senior Management and those leaving office during the Reporting Period" in this section for remuneration payment of the Directors, Supervisors and senior management. Total remuneration for the Directors, Supervisors and senior management of the Company in 2016 is RMB30,639 thousand. The remuneration of the Directors, Supervisors is set out in Note 18 to the consolidated financial statements of the report.

Remuneration of the five highest paid individuals of the Company are set out in Note 19 to the consolidated financial statements of this report.

## Directors, Supervisors, Senior Management and Employees (Continued)

### VI. DETAILS AND REMUNERATION OF STAFF

#### (I) Number and Composition of Employees

As at the end of the Reporting Period, the Group had 2,008 employees in total, including 1,515 employed by the Company and 493 employed by its subsidiaries, the structure of which is as below:

<b>Age</b>	<b>The Group</b>		<b>The Company</b>	
	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Under 30	710	35.36%	526	34.72%
31–40	758	37.75%	541	35.71%
Above 41	540	26.89%	448	29.57%
<b>Total</b>	<b>2,008</b>	<b>100%</b>	<b>1,515</b>	<b>100%</b>
<b>Specialty Structure</b>	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Brokerage	1,044	51.99%	974	64.29%
Asset management	34	1.69%	34	2.24%
Proprietary trading	46	2.29%	11	0.73%
Investment banking	195	9.71%	75	4.95%
Research	34	1.69%	3	0.20%
Finance	103	5.13%	63	4.16%
Information technology	93	4.63%	69	4.55%
Liquidation	6	0.30%	3	0.20%
Other business	231	11.50%	134	8.85%
Administration	222	11.07%	149	9.83%
<b>Total</b>	<b>2,008</b>	<b>100%</b>	<b>1,515</b>	<b>100%</b>
<b>Educational background</b>	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Postgraduate or above	412	20.52%	198	13.07%
College graduate	1,336	66.53%	1,107	73.07%
Junior college graduate or below	260	12.95%	210	13.86%
<b>Total</b>	<b>2,008</b>	<b>100%</b>	<b>1,515</b>	<b>100%</b>

## Directors, Supervisors, Senior Management and Employees (Continued)

### (II) Remuneration of Employees

The remuneration of employees comprises of basic wage, allowances, benefits and others. The Company has made contributions to, among others, social insurance and housing provident fund on behalf of its employees in accordance with relevant requirements of the PRC. The Company has strictly complied with the Labor Law of the PRC, Labor Contract Law of the PRC and other applicable laws and regulations, and have a sound human resources management system and process in place to regulate its employment procedures, so as to effectively protect the rights and interests of the employees.

### (III) Staff Training Plans

The Company highly values staff training. At the beginning of the year, the Company made surveys and analysis in respect of staff training by issuing Training Questionnaire for 2016 and Survey Sheet of Training Needs and, based on the information so collected, prepared the Training Plan of Hengtai Securities for 2016 through summarization, statistics and analysis.

During the Reporting Period, the Company organized large-scale training activities including five sessions of leadership training for the middle-level management members, three sessions of induction training for new recruits, two sessions of business training and one session for the transformation of its business branches. During the Reporting Period, the Company further organized trainings to boost the marketing and communication skills of its sales personnel and as well as EQ leadership trainings for its Brokerage Business Department.

According to the requirements of the Securities Association of China, the Company has made applications for follow-up trainings on behalf of all current in-house practitioners who have qualification certificates to engage in securities business funds or futures intermediary business. In addition, the Company has made applications on behalf of its senior management and all departments for participating in 64 training sessions organized by the Securities Association of China, the Shanghai Stock Exchange and other external training institutions, covering 168 trainees.

## **VII. INFORMATION ABOUT CUSTOMERS SOLICITATION AND CUSTOMER SERVICES OF COMMISSIONS BROKERS**

As at the end of 2016, the securities branches of the Company had 1,203 brokers, designated to the teams of each securities branch and directly managed by the wealth management center of the securities branches. The securities practitioner qualifications of the brokers were under centralized management of the human resources department of the Company. Upon signing the entrustment contracts, the brokers will receive pre-job training provided by relevant securities branches and follow-up training provided by the Company. The Company's management of its in-house brokers has complied with the relevant laws, regulations of the PRC and the wealth management system of the Company. Brokers could introduce the general information of the Company and the securities market; the basic information of securities investment, and business processes such as account opening, trading, fund deposit and withdrawal; laws and regulations relating to securities trading, relevant provisions of the CSRC, self-regulatory rules and relevant regulations of the Company to the customers; and deliver a research report to the customers provided by the Company and information related to securities investments. As of the end of 2016, there were no complaints or disputes with respect to the brokers with the customers.

# Corporate Governance Report

## I. OVERVIEW OF CORPORATE GOVERNANCE

During the Reporting Period, the Company operated in strict compliance with the requirements of laws, regulations and regulatory documents of the PRC and the place where the Company's shares are listed, including the Company Law of the PRC, the Securities Law of the PRC, the Regulations on the Supervision and Administration of Securities Companies, the Corporate Governance Rules for Securities Companies and the Corporate Governance Code, to continuously improve the corporate governance level. The Company has further optimised its rules and systems and constantly improved its corporate governance structure.

During the Reporting Period, the general meetings, the Board, the Supervisory Committee and the management of the Company have performed their fiduciary duties according to the relevant requirements, ensuring the standard operation of the Company. The convocation, voting and decision-making procedures of general meetings of the Company and meetings of the Board and the Supervisory Committee were legal and valid. The corporate governance practices of the Company were in full compliance with the relevant requirements.

## II. SHAREHOLDERS AND GENERAL MEETINGS

### (I) Rights of General Meetings and Shareholders

The Articles of Association and the Rules of Procedure for General Meetings have stipulated the rights and obligations of the shareholders, the authority of general meetings, and the convocation, voting and decision-making of general meetings. The general meeting is the supreme authority of the Company.

### (II) General Meetings

During the Reporting Period, the Company convened one general meeting in total, the details of which are set out as follows:

1. On 27 May 2016, the 2015 annual general meeting of the Company was convened, at which the proposals relating to the following matters were considered and approved: the Work Report of the Board for the year 2015, the Work Report of the Supervisory Committee for the year 2015, the Annual Report of the Company for the year 2015, the Profit Distribution Plan for the year 2015, the Final Accounts Report for the year 2015, the Re-appointment of Domestic Auditors and the Change of International Auditors.

### III. BOARD OF DIRECTORS AND PERFORMANCE OF DUTIES

#### (I) Duties of the Board and the Management

##### Duties of the Board

The rights and duties of the Board are set out in the Articles of Association. The main duties of the Board include convening general meeting and reporting to the general meeting; implementing resolutions of general meeting; determining the Company's business plans and investment plans; formulating the annual financial budgets and final accounting plans of the Company; formulating the profit distribution plan and loss makeup plan of the Company; formulating proposals for the Company in respect of increase or reduction of the registered capital, issue of bonds or other securities and the listing thereof; formulating plans for material acquisitions, purchase of shares of the Company or merger, division, dissolution or transformation of the Company; determining within the authority granted by the general meeting such matters as external investment, acquisition and disposal of assets, asset mortgage, entrusted wealth management, connected transactions and other matters; determining the establishment of internal management organizations of the Company; appointing or dismissing the Company's president, secretary to the Board, chief compliance officer; appointing or dismissing the Company's senior management including vice president(s), and chief financial officer in accordance with the nominations by the president, and determining their remunerations and rewards and penalties; formulating the basic management system of the Company, etc.

##### Duties of the management

The main duties of the management include organising and implementing the Board's resolutions and to report to the Board; organising and implementing the annual operation plan and investment plan of the Company; preparing plans for the establishment of the Company's internal management organizations; developing the Company's basic management system and specific rules; deciding to appoint or remove executives other than those appointed or removed by the Board; and performing such other duties and powers as authorised by the Board.

## Corporate Governance Report (Continued)

### (II) Composition of the Board

Directors shall be elected or replaced at general meetings. A Director shall serve a term of three years from the date of the resolution passed at general meeting, and may seek re-election upon expiry of the said term. Currently, the Board consists of eight Directors, including two executive Directors (Mr. Pang Jiemin (龐介民) (chairman) and Mr. Wu Yigang (吳誼剛)), three non-executive Directors (Mr. Zhang Tao (張濤), Mr. Chen Guanglei (陳廣壘) and Mr. Sun Chao (孫超)) and three independent non-executive Directors (Mr. Peng Diyun (彭迪雲), Ms. Zhou Jianjun (周建軍) and Dr. Lam Sek Kong (林錫光)).

Throughout the Reporting Period, the Board has complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (the number of which represented at least one-third of the Board) with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

There is no financial, business, family or other material/relevant relationship among the Board members (particularly the Chairman and the President).

### (III) Meetings of the Board

The Board convenes meetings on a regular basis and at least four Board meetings will be held each year. All Directors will be given a notice at least 14 days prior to every regular Board meeting or within an appropriate time period prior to any other special Board meeting, and they can add new matters to be discussed to the agenda. The agenda and enclosed documents relating to a Board meeting will be sent to all Directors at least three days before the proposed date of the Board meeting. Each Director shall be entitled to access to documents relating to Board meetings and other relevant documents and to receive advices and services provided by the company secretary. The Directors may also seek independent professional opinions. The minutes shall be kept by the company secretary. After conclusion of a Board meeting, the initial and finalised minutes shall be sent to all the Directors in due time, with the initial ones to be commented on by the Directors and the finalised ones for their record.

## Corporate Governance Report (Continued)

During the Reporting Period, the Board convened 17 meetings, the details of which are set out as follows:

1. On 14 January 2016, the 29th extraordinary meeting of the 3rd session of the Board was convened, at which the Proposal in Relation to Capital Increase in Hengtai Capital (a wholly-owned subsidiary of the Company) was considered and approved.
2. On 26 February 2016, the 30th extraordinary meeting of the 3rd session of the Board was convened, at which the Proposal in Relation to Investment in Qihoo 360 Technology Co. Ltd. by Hengtai Capital (a subsidiary of the Company) and the Proposal in Relation to the Authorisation to Hengtai Changcai (a subsidiary of the Company) to Carry Out Standby Underwriting for New Share Offering Projects to be Underwritten were considered and approved.
3. On 15 March 2016, the 31st extraordinary meeting of the 3rd session of the Board was convened, at which the proposals in relation to the Plan for Provision of Bonus for Staff of Hengtai Securities Co., Ltd. for 2015, the Plan for Provision of Bonus for Senior Management of Hengtai Securities Co., Ltd. of 2015 and Establishment of Internet-based Finance Department and Institutional Transaction Department (the Level-one Departments) by the Company were considered and approved.
4. On 24 March 2016, the 4th meeting of the 3rd session of the Board was convened, at which the following proposals were considered and approved: the 2015 Annual work Report of the Management, the 2015 Annual Work Report of the Board, the 2015 Annual Work Report of the Independent Directors of the Company, the Approval of the Annual Results Announcement of the Company for the year ended 31 December 2015, the 2015 Annual Report of the Company, the 2015 Self-assessment Report of Internal Controls of the Company, the 2015 Profit Distribution Plan of the Company, the 2015 annual Compliance Report of the Company, the 2015 Risk Management Report of the Company, the Payment of Auditors' Service Fees for 2015, the 2015 Annual Final Accounting Report of the Company, the 2016 Annual Budget Proposals of the Company, the 2016 Annual Business Plans of the Company, the 2016 Work Plan for Auditing Projects of the Company, the Appointment of External Auditors for 2016, and the Convening of the Annual General Meeting of 2015.

## Corporate Governance Report (Continued)

5. On 5 April 2016, the 32nd extraordinary meeting of the 3rd session of the Board was convened, at which the following proposals were considered and approved: the Risk Preference Strategy of the Company for 2016, the Proposal in Relation to Authorisation to the Management by the Board to Establish an Assessment Team for Assessing the Effectiveness of the Compliance Management of the Company and the Amendments to the Measures on Compliance Management of Hengtai Securities Co., Ltd..
6. On 10 May 2016, the 33rd extraordinary meeting of the 3rd session of the Board was convened, at which the proposals in relation to Establishment of 13 C-type Brokerage Branches in Beijing and Other Cities by the Company and Appointment of H-share Dividend Paying Agent and Relevant Expenses were considered and approved.
7. On 31 May 2016, the 34th extraordinary meeting of the 3rd session of the Board was convened, at which the proposals in relation to Application for Borrowing Subordinated Debt by Hengtai Futures (a subsidiary of the Company), Resignation of Mr. Deng Hao (鄧浩) as Vice President of the Company and Appointment of Mr. Liu Quansheng (劉全勝) as Vice President of the Company were considered and approved.
8. On 27 June 2016, the 35th extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to Establishment of the Institutional Investment Consulting Department (Level-one Department) by the Company was considered and approved.
9. On 18 August 2016, the 36th extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to Revocation of the Securities Branch Located at Juzi Street, Yanji was considered and approved.
10. On 25 August 2016, the 5th meeting of the 3rd session of the Board was convened, at which the following proposals were considered and approved: the Interim Results Announcement of the Company for the six months ended 30 June 2016, the 2016 Interim Report of the Company and the 2016 Interim Compliance Report of the Company.

## Corporate Governance Report (Continued)

11. On 11 October 2016, the 37th extraordinary meeting of the 3rd session of the Board was convened, at which the proposals in relation to Resignation of Mr. Wang Haibin (王海兵) as Chief Financial Officer of the Company, Appointment of Ms. Yang Shufei (楊淑飛) as Chief Financial Officer of the Company, Adjustments to Investment Size of the Proprietary Equity Securities of the Company of 2016 and Additional Increase in the Company's Financing quota were considered and approved.
12. On 14 October 2016, the 38th extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to Investment in Shenzhen Mindray Bio-medical Electronics Co., Ltd. (深圳邁瑞生物醫療電子股份有限公司) by Hengtai Capital (a subsidiary of the Company) was considered and approved.
13. On 18 October 2016, the 39th extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to the Additional Capital Contribution of RMB500 million to Hengtai Capital (a subsidiary of the Company) was considered and approved.
14. On 18 November 2016, the 40th extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to the Capital Contribution to Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司) by New China Fund Management Co., Ltd. (a subsidiary of the Company), and the proposal in relation to the Plan for Employee Equity Incentive of New China Fund Management Co., Ltd. (a subsidiary of the Company) were considered and approved.
15. On 16 December 2016, the 41st extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to the Plan for Compensation Appraisal of Senior Management of the Company was considered and approved.
16. On 28 December 2016, the 42nd extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to the Changes in Business Registration with the Industry and Commerce Authority was considered and approved.
17. On 30 December 2016, the 43rd extraordinary meeting of the 3rd session of the Board was convened, at which the proposal in relation to the Plan for Bonus Adjustment of the Senior Management of the Company for 2015 was considered and approved.

## Corporate Governance Report (Continued)

### (IV) Objections from Independent Non-executive Directors to Relevant Issues of the Company

Nil.

### (V) Attendances of Directors at Board Meetings and General Meetings during Their Term of Office for the Reporting Period

Name	Position	Number of Required attendances at Board meetings	Attendance at Board meetings				Voting results	Attendance at general meetings	Remark
			Number of attendances in person	Number of attendances by proxy	Number of absences	Number of attendances at general meetings			
Pang Jiemin (龐介民)	Executive Director	17	17	0	0	All agreed	1		
Wu Yigang (吳誼剛)	Executive Director	17	17	0	0	All agreed	1		
Zhang Tao (張濤)	Non-executive Director	17	17	0	0	All agreed	1		
Ju Jin (鞠瑾)	Non-executive Director	5	0	0	5	-	-	Resigned on 25 April 2016	
Chen Guanglei (陳廣壘)	Non-executive Director	17	17	0	0	All agreed	0		
Sun Chao (孫超)	Non-executive Director	17	17	0	0	All agreed	1		
Peng Diyun (彭迪雲)	Independent non-executive Director	17	17	0	0	All agreed	1		
Zhou Jianjun (周建軍)	Independent non-executive Director	17	17	0	0	All agreed	1		
Lam Sek Kong (林錫光)	Independent non-executive Director	17	17	0	0	All agreed	1		

The Chairman met with the non-executive Directors (including the independent non-executive Directors) without any executive Directors present once during the Reporting Period.

## Corporate Governance Report (Continued)

### (VI) Trainings for Directors and Supervisors

All Directors and Supervisors confirmed that they had complied with code provisions of the Corporate Governance Code in relation to directors' and supervisors' training.

The Company attached great importance to the continuous training for the Directors and Supervisors and all of the Directors and Supervisors of the Company received the training on continuing obligations in relation to compliance issues of Hong Kong listed companies on 27 December 2016. During the Reporting Period, Directors and Supervisors of the Company also proactively participated in trainings and seminars organized by the regulatory authorities and the industrial associations so as to improve their capabilities to fulfill their work duties. Details of the trainings are as follows:

<u>Name</u>	<u>Position</u>	<u>Training content</u>
Pang Jiemin	Chairman, and Executive Director	Attended the 42nd session of seminar on "the enhancement of continuous professional development" (the ECPD Seminar) sponsored by the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) on 19 December 2016
Chen Guanglei	Non-executive Director	Attended the training for directors, supervisors and senior management organized by the Beijing Securities Regulatory Bureau of the CSRC (中國證監會北京監管局) on 19 May 2016
Zhang Tao	Non-executive Director	Attended the symposium regarding regulation of listed companies organized by the Inner Mongolia Regulatory Bureau of the CSRC (中國證監會內蒙古監管局) on 3 June 2016
Peng Diyun	Independent non-executive Director	Attended the symposium regarding the development and prospect of the inclusive finance held jointly by Nanchang Branch of People's Bank of China (中國人民銀行南昌中心支行) and Finance Society in Jiangxi Province (江西省金融學會) on 21 May 2016. Attended the training regarding the development and innovation of modern service industry organized by Jiangxi Development and Reform Commission (江西省發展和改革委員會) on 26 August 2016
Zhou Jianjun	Independent non-executive Director	Attended the industry training for certified public accountants sponsored by Beijing Institute of Certified Public Accountants of the PRC (中國北京註冊會計師協會) on 18 August 2016 Attended the industry training for certified tax agents sponsored by Beijing Certified Tax Agents Association of the PRC (中國北京註冊稅務師協會) on 5 September 2016
Pei Jingjing	Shareholder representative Supervisor	Attended the senior seminar regarding corporate management organized by Guanghua School of Management, Peking University (北京大學光華管理學院) on 30 November 2016

## Corporate Governance Report (Continued)

### IV. SPECIAL COMMITTEES OF THE BOARD AND DUTY PERFORMANCE

The Board of the Company has four special committees, namely, Strategy and Investment Committee, Risk Control and Supervisory Committee, Audit Committee and Remuneration and Nomination Committee. The special committees of the Board of the Company shall, within their terms of reference specified in their respective rules of procedures, perform their duties and be accountable to the Board.

Composition of Committees:

Strategy and Investment Committee:	Pang Jiemin (Chairman of the Committee, executive Director), Sun Chao (non-executive Director) and Lam Sek Kong (independent non-executive Director)
Risk Control and Supervisory Committee <sup>1</sup> :	Zhang Tao (non-executive Director) and Wu Yigang (executive Director)
Audit Committee:	Zhou Jianjun (Chairman of the Committee, independent non-executive Director), Zhang Tao (non-executive Director) and Lam Sek Kong (independent non-executive Director)
Remuneration and Nomination Committee <sup>1</sup> :	Peng Diyun (Chairman of the Committee, independent non-executive Director) and Zhou Jianjun (independent non-executive Director)

*Note 1:* Mr. Ju Jin resigned as a non-executive Director of the Company, chairman and member of the Risk Control and Supervisory Committee and member of the Remuneration and Nomination Committee on 25 April 2016.

#### (I) Strategy and Investment Committee

##### 1. Duties of the Committee

The main duties and responsibilities of the Strategy and Investment Committee include: studying the national macro-economic policies; studying the medium to long-term strategic goals and development plans of the Company; studying the development plans of the Company, understanding the basic operational situation of the Company, analysing and understanding the latest development of the domestic industries; studying and making suggestions on the capital budgets projects and financing plans within the authorisation of the Board; studying and making

## Corporate Governance Report (Continued)

suggestions on projects of capital operation, assets management, and assets disposal within the authorisation of the Board; conducting inspection for the implementation status of the above items; and other duties as authorised by the Board. For specific duties and responsibilities of the Strategy and Investment Committee, please refer to Rules of Procedure for the Strategic and Investment Decision-making Committee of the Board of Directors of Hengtai Securities Co., Ltd., which has been published on the Company's website and the HKExnews website.

### 2. Meetings of the Committee

During the Reporting Period, one meeting was convened by the Strategy and Investment Committee, particulars of which are as follows:

On 10 October 2016, the Strategy and Investment Committee convened the first meeting in 2016, at which the proposal in relation to the Additional Capital Contribution of RMB500 million to Hengtai Capital Investment Co., Ltd. (a wholly-owned subsidiary of the Company) was considered, approved and submitted to the Board for consideration.

<b>Name of member</b>	<b>Number of required attendances</b>	<b>Number of actual attendances</b>
Pang Jiemin (龐介民)	1	1
Sun Chao (孫超)	1	1
Lam Sek Kong (林錫光)	1	1

# Corporate Governance Report (Continued)

## (II) Risk Control and Supervisory Committee

### 1. Duties of the Committee

The main duties and responsibilities of the Risk Control and Supervisory Committee include: reviewing general goals and fundamental policies of the compliance management, risk management and internal control of the Company, and making suggestions on the same; reviewing the establishment and responsibilities of the compliance management, risk management and internal control, and making suggestions on the same; evaluating the risks of major decisions which shall be reviewed by the Board and making suggestions on the solutions to the major risks; reviewing the compliance report and risk assessment report which shall be reviewed by the Board and making suggestions; formulating regulation system of the Company, supervising its implementation status and making suggestions to the Board; reviewing and supervising the training and continuing professional development of Directors and senior management officers; reviewing and supervising the policies of the Company in compliance with laws and regulations and the implementation status of such policies; formulating, reviewing and supervising the code of professional conduct and compliance manual of employee and Directors; reviewing the observance of Corporate Governance Code as set out in Appendix 14 to of Listing Rules as well as the information disclosure according to "Corporate Governance Report" by the Company; and other duties as authorised by the Board of the Company. For specific duties and responsibilities of the Risk Control and Supervisory Committee, please refer to Rules of Procedure for the Risk Control and Supervision Committee of the Board of Directors of Hengtai Securities Co., Ltd., which has been published on the Company's website and the HKExnews website.

### 2. Meetings of the Committee

During the Reporting Period, two meetings were convened by the Risk Control and Supervisory Committee, particulars of which are as follows:

On 18 March 2016, the Risk Control and Supervisory Committee convened the first meeting in 2016, at which the proposals in relation to the 2015 Compliance Report of the Company, the 2015 Risk Management Report of the Company and the 2015 Self-assessment Report of Internal Controls of the Company were considered, approved and submitted to the Board for consideration.

## Corporate Governance Report (Continued)

On 23 August 2016, the Risk Control and Supervisory Committee convened the second meeting in 2016, at which the proposals in relation to the 2016 Interim Compliance Report of the Company and the 2016 Interim Report on Risk Control Indicators (Including Net Capital) of the Company were considered and approved, submitted to the Board for consideration.

<b>Name of member</b>	<b>Number of required attendances</b>	<b>Number of actual attendances</b>
Ju Jin (鞠瑾)	1	0
Zhang Tao (張濤)	2	2
Wu Yigang (吳誼剛)	2	2

### (III) Audit Committee

#### 1. Duties of the Committee

The main duties and responsibilities of the Audit Committee include: reviewing the financial monitoring, risk management and internal control systems of the Company and the effectiveness of the implementation of these systems, discussing the risk management and internal control systems with the management to ensure that management has performed its duty to have effective systems and reporting to the Board. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; conducting study on important findings of risk management and internal control and management's responses on such findings actively or commissioned by the Board; guiding the work of the internal audit department of the Company, and supervising the internal audit system and its implementation; monitoring the annual audits; examining and supervising affiliated party transactions and assessing the appropriateness of affiliated party transactions; making suggestions to the Board on the appointment, reappointment or replacement of external auditors, approving the compensation and terms of engagement for external auditors, as well as handling any matters regarding the resignation or dismissal of external auditors; reporting relevant affairs of the Listing Rules, and other duties as authorised by the Board of the Company and as required by the laws, regulations and rules including the Listing Rules. For specific duties and responsibilities of the Audit Committee, please refer to Rules of Procedure for the Audit Committee of the Board of Directors of Hengtai Securities Co., Ltd., which has been published on the Company's website and the HKExnews website.

## Corporate Governance Report (Continued)

### 2. Meetings of the Committee

During the Reporting Period, two meetings were convened by the Audit Committee, particulars of which are as follows:

On 18 March 2016, the Audit Committee convened the first meeting in 2016, at which the proposals in relation to the Payment of Auditors' Fees for 2015, the 2016 Work Plan for Audit Projects of the Company, Appointment of External Auditors for 2016, the 2015 Self-assessment Report of Internal Controls of the Company and the Annual Results Announcement of the Company for the Year Ended 31 December 2015, were considered, approved and submitted to the Board for consideration.

On 23 August 2016, the Audit Committee convened the second meeting in 2016, at which the proposals in relation to the Interim Results Announcement of the Company for the Six Months Ended 30 June 2016, and the 2016 Interim Report of the Company were considered and approved and submitted to the Board for consideration.

<b>Name of member</b>	<b>Number of required attendances</b>	<b>Number of actual attendances</b>
Zhou Jianjun (周建軍)	2	2
Zhang Tao (張濤)	2	2
Lam Sek Kong (林錫光)	2	2

### (IV) Remuneration and Nomination Committee

#### 1. Duties of the Committee

The main duties and responsibilities of the Remuneration and Nomination Committee include: considering appropriate remuneration policy, performance measuring system, and rewards and punishments incentives for the company in accordance with the features of the security industry, the responsibilities and importance of Directors and senior management officers, and comparing with the remuneration level of relevant companies, making suggestions to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, and making suggestions on any proposed changes to be made to the Board to complement the Company's corporate strategy; reviewing and approving the remuneration suggestions of Directors and senior management officers in accordance with the Company's development strategy and goal set by the Board; reviewing the selection criteria and procedures of the Directors, senior management officers of the Company, and making suggestions to the Board; identifying candidates with suitable qualifications to become the Directors, senior management officers of the Company in an extensive manner, and selecting and nominating relevant candidates for Directors and senior management officers or making suggestions to the Board in this regard; assessing and making recommendations on the candidates of Directors and senior management officers, assessing the independence of independent non-executive Directors; making suggestions to the Board on the plan of the appointment, re-appointment and the succession of Directors (especially chairman of the Board or the president); ensuring that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; other duties as authorised by the Board of the Company. For specific duties and responsibilities of the Remuneration and Nomination Committee, please refer to Rules of Procedure for the Remuneration and Nomination Committee of the Board of Directors of Hengtai Securities Co., Ltd., which has been published on the Company's website and the HKExnews website.

## Corporate Governance Report (Continued)

### 2. Meetings of the Committee

During the Reporting Period, four meetings were convened by the Remuneration and Nomination Committee, the particulars of which are as follows:

On 11 March 2016, the Remuneration and Nomination Committee convened the first meeting in 2016, at which the proposal in relation to Plan for Bonus Distribution of Senior Management of Hengtai Securities Co., Ltd. of 2015 was considered, approved and submitted to the Board for consideration.

On 25 May 2016, the Remuneration and Nomination Committee convened the second meeting in 2016, at which the proposal in relation to Appointment of Mr. Liu Quansheng (劉全勝) as Vice President of the Company was considered, approved and submitted to the Board for consideration.

On 8 October 2016, the Remuneration and Nomination Committee convened the third meeting in 2016, at which the proposal in relation to Appointment of Ms. Yang Shufei (楊淑飛) as Chief Financial Officer of the Company was considered, approved and submitted to the Board for consideration.

On 2 December 2016, the Remuneration and Nomination Committee convened the fourth meeting in 2016, at which the proposal in relation to Plan for Compensation Appraisal of Senior Management of the Company was considered, approved and submitted to the Board for consideration.

<b>Name of member</b>	<b>Number of required attendances</b>	<b>Number of actual attendances</b>
Peng Diyun (彭迪雲)	4	4
Ju Jin (鞠瑾)	1	0
Zhou Jianjun (周建軍)	4	4

### V. CHAIRMAN AND PRESIDENT

The positions of the chairman of the Board and president of the Company are taken by different persons. Mr. Pang Jiemin (龐介民) served as the chairman of the Board and Mr. Niu Zhuang (牛壯) served as the president. Their duties and authorities are clearly divided and specified in the Articles of Association.

Mr. Pang Jiemin, Chairman of the Board, leads the Board in determining the overall development strategy of the Company to guarantee the effective operation and performance of the Board, supervises and reviews the implementation of the resolutions of the Board, and debriefs the work reports of the senior management of the Company so as to ensure that the corporate governance of Company is in a virtuous order and the resolutions of the Board are in the best interest of the Company and its Shareholders as a whole. Mr. Niu Zhuang, the President, presides over the business operations of the Company, organizes the implementation of the resolutions of Board, and reports relevant work to the Board.

### VI. NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

As at the end of the Reporting Period, the Company had three non-executive Directors and three independent non-executive Directors. For their appointment, please refer to Section 9 “Directors, Supervisors, Senior Management and Employees”.

### VII. SUPERVISORY COMMITTEE AND DUTY PERFORMANCE

#### (I) Duties of the Supervisory Committee

Duties of the Supervisory Committee are specified in the Articles of Association and its main duties and authorities are to review the periodic reports of the Company prepared by the Board and express its written opinion; to check the financial condition of the Company; to monitor the performance of duties by Directors and senior management officers, raise questions to or propose dismissal of such Directors and senior management officers as in breach of the laws, regulations, the Articles of Association or the resolutions of general meetings; to require Directors and senior management officers to make corrections in the event that their conduct has damaged the interests of the Company; to propose the convening of extraordinary general meetings and, in the event that the Board does not perform the obligations to convene and preside over the general meetings in accordance with the Company Law of the PRC, to convene and preside over the general meetings; to initiate legal proceedings against Directors and senior management officers; to monitor the compliance and validity of the decision-making of the Board; to organize the off-office auditing for the senior management officers; and other duties as stipulated by the laws, regulations, department rules and the Articles of Association.

#### (II) Composition of the Supervisory Committee

Shareholder representative Supervisors are elected or replaced in general meetings while Employee Representative Supervisors are elected or replaced by the employees of the Company by means of the Company's democratic election. The Supervisors are elected for a term of three years and may be re-elected upon expiry of their term of office. The Supervisory Committee currently consists of three members, namely, Mr. Guo Liwen (郭力文), the chairman of the Supervisory Committee, Ms. Pei Jingjing (裴晶晶), the Shareholder representative Supervisor, and Mr. Wang Hui (王慧), the employee representative Supervisor.

### (III) Meetings of the Supervisory Committee

The Supervisory Committee convened five meetings during the Reporting Period, particulars of which are as follows:

1. On 24 March 2016, the 3rd meeting of the third session of the Supervisory Committee was convened, at which the following proposals were considered and approved: the 2015 Work Report of the Supervisory Committee of the Company, the 2015 Annual Report of the Company, the 2015 Self-assessment Report of Internal Controls of the Company, the 2015 Profit Distribution Plan of the Company, the 2015 Annual Final Accounting Report of the Company and the 2016 Annual Budget Proposal of the Company.
2. On 31 May 2016, the 4th extraordinary meeting of the third session of the Supervisory Committee was convened, at which the proposal in relation to the Off-office Auditing on Mr. Deng Hao (鄧浩) was considered and approved.
3. On 5 July 2016, the 5th extraordinary meeting of the third session of the Supervisory Committee was convened, at which the proposal in relation to the Off-office Auditing on Ms. Fu Lixin (付立新) as Legal Representative of Shanghai Yingwo was considered and approved.
4. On 25 August 2016, the 4th meeting of the third session of the Supervisory Committee was convened, at which the proposals in relation to the 2016 Interim Report of the Company and the 2016 Interim Compliance Report of the Company were considered and approved.
5. On 11 October 2016, the 6th extraordinary meeting of the third session of the Supervisory Committee was convened, at which the proposal in relation to the Off-office Auditing on Mr. Wang Haibin (王海兵) was considered and approved.

## Corporate Governance Report (Continued)

### (IV) Meeting Attendances of Supervisors

Name of Supervisor	Position	Number of required attendances	Attendances		Absences	Voting results
			in person	by proxy		
Guo Liwen (郭力文)	Chairman of the Supervisory Committee	5	5	0	0	All agreed
Pei Jingjing (裴晶晶)	Shareholder representative Supervisor	5	5	0	0	All agreed
Wang Hui (王慧)	Employee representative Supervisor	5	5	0	0	All agreed

## VIII. OTHER RELATED ISSUES

### (I) Shareholders' Right

The Company convened and held 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 small and medium ones. When a general meeting is convened, all of the Company's Directors, Supervisors and secretary to the Board should attend the general meeting and the president and other senior management shall attend the general meeting as observers according to requirements and answer the shareholder's questions.

According to Article 73 of the Articles of Association, shareholder(s) severally or jointly holding 10% or more shares of the Company shall be entitled 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 laws, regulations and these Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. In the event that the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days

## Corporate Governance Report (Continued)

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. In the event that the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding 10% or above 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. In the event that the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after receipt of the said request. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. In the event that the Supervisory Committee does not issue the notice for the general meeting within the term stipulated, the Supervisory Committee shall be deemed as failing to convene and preside over the general meeting. As a result, the shareholder(s) severally or jointly holding 10% or more shares of the Company for 90 consecutive days or longer may convene and preside over such meeting by itself/themselves. According to Article 75 of the Articles of Association, for the general meeting convened by the Supervisory Committee or shareholders on its/their own, the Board and the secretary to the Board shall cooperate. The Board shall provide the register of shareholders on the record date of the equity interests. According to Article 78 of the Articles of Association, the shareholder(s) severally or jointly holding 3% or above shares of the Company shall be entitled to propose motions concerning such matters other than nominating candidates for directors (including independent directors) or supervisors to the Company. The shareholder(s) severally or jointly holding 3% or above shares of the Company may submit written provisional motion to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within two days after receipt of such motion, and notify the shareholders of the contents of the provisional motion. Save as specified in the preceding paragraph, the convener shall not change the motion set out in the notice of general meeting or add any new motion after the said notice announcement is served. Such motions which are not specified in the notice of the general meeting or which do not comply with Article 77 of the Articles of Association shall not be voted or resolved at the general meeting. According to Article 87 of the Articles of Association, any shareholder entitled to attend and vote at a general meeting shall have the right to appoint one or several persons (who may not be shareholders) to act as his proxy to attend and vote at the meeting on his behalf.

## Corporate Governance Report (Continued)

Resolutions passed at the general meeting shall be immediately announced in accordance with the laws, regulations, department rules, normative documents, provisions of the securities regulatory authorities at the place where the shares of the Company are listed, or the provisions of the Articles of Association. Such minutes of meeting, together with the signatures of the shareholders attending meeting and the powers of attorney concerning the proxies attend the meeting on behalf of others, shall be kept at the domicile of the Company. Shareholders may consult photocopies of the minutes of meetings free of charge during the business hours of the Company. In the event of any shareholder asking for photocopies of such minutes, the Company shall deliver the photocopies in seven days after receiving rational expenses.

Shareholders or their proxies shall declare their opinions when considering issues and can make inquiries on issues affecting their judgment and vote and ask reporters to give explanation. Save for such matters in relation to the business secrets of the Company as cannot be disclosed at the general meeting, Directors, Supervisors and senior management officers shall provide explanations in relation to the inquiries and suggestions made by shareholders on general meetings.

### **(II) Compliance with Model Code**

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors and Supervisors. Having made specific enquiry with all Directors and Supervisors, all Directors and Supervisors confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

### **(III) Liability Insurance of the Directors, Supervisors and Senior Management of the Company**

The Company has arranged appropriate liability insurance to indemnify the Directors, Supervisors and senior management of the Company for their liabilities arising out of corporate activities. The insurance coverage is reviewed regularly.

## Corporate Governance Report (Continued)

### **(IV) Responsibilities of Directors concerning Financial Statements**

The declarations of the responsibilities of Directors concerning financial statements set out hereinafter and the responsibilities of certified public accountants in the Independent Auditor's Report of this report shall be read jointly but understood independently.

All the Directors 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.

### **(V) Appointment and Remuneration of Auditors**

Please refer to "X. Engagement of accounting firms" under Section 7 "Other Material Particulars" of this report.

### **(VI) Review of the Audit Committee**

The Audit Committee has reviewed the Company's consolidated financial statements of 2016.

### **(VII) Joint Company Secretaries**

Mr. Zhang Wei (張偉) and Ms. Leung Wing Han Sharon (梁穎嫻) are joint company secretaries of the Company. Ms. Leung Wing Han Sharon (vice president of SW Corporate Services Group Limited) provides assistance to Mr. Zhang Wei in the discharge of his duties as a company secretary of the Company. Mr. Zhang Wei, the secretary to the Board and the joint company secretary of the Company, serves as the primary contact person between Ms. Leung Wing Han Sharon and the Company. For the year ended 31 December 2016, Mr. Zhang Wei and Ms. Leung Wing Han Sharon have both received no less than 15 hours of professional training in accordance with Rule 3.29 of the Listing Rules.

Minutes of all meetings of the Board and special committees of the Board are kept at the Company, and are available for inspection by the Directors upon required.

## Corporate Governance Report (Continued)

### **(VIII) Communications with Shareholders**

The general meeting shall be the supreme authority of the Company. All Shareholders exercise their power through the general meeting. The Company convened general meetings in strict accordance with relevant provisions and ensured all shareholders could enjoy equal status and fully exercise their rights as shareholders. In strict accordance with the Articles of Association, the Company maintains orderly development in the interest of the Company and shareholders.

Attaching great importance to opinions and suggestions of its shareholders, the Company designated staff to keep in contact with shareholders and meet their reasonable demands in time. The Company releases its announcements, financial data and other relevant data in the column of Investor Relations on its website [www.cnht.com.cn](http://www.cnht.com.cn). The shareholders may contact the Company for any enquiry by email ([dongban@cnht.com.cn](mailto:dongban@cnht.com.cn)) or telephone (+86 10 8327 0996) or by writing to the Company's address (11/F, China Life Centre, No. 17 Finance Street, Xicheng District, Beijing, the PRC). The Company will properly handle all enquiries in time.

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

### **(IX) Investor Relation Activities**

The Company has always paid high attention to investor relations management. During the Reporting Period, the Company communicated with investors through multiple ways like conducting non-deal roadshows, making phone calls, sending emails, receiving visitors and attending investor meetings, so as to reinforce the communication services to investors.

During the Reporting Period, the Company proactively performed its obligations on information disclosure in strict compliance with relevant laws, regulations and regulatory provisions to ensure that all investors can know the Company's material matters in a timely, truthful, accurate, complete and fairly manner, and fully exercise their rights to protect their relevant interests.

### **(X) Board Diversity Policy**

The Company has adopted the board diversity policy according to Code Provision A.5.6 of the Corporate Governance Code.

The Company's board diversity policy can be summed up as follows: The Company believes that the board diversity is important in terms of the corporate governance and the efficiency of the Board. In designing the Board's composition, the Company considers board diversity from a number of aspects to ensure a balance among the Board members in terms of techniques, experiences as well as perspective diversity, so as to promote the effective operation of the Board and maintain the corporate governance standard at a high level. Nominations and appointments of the members of the Board will be based on meritocracy and requirements of the routine operation of the Board with the benefit from Board diversity in consideration.

The Remuneration and Nomination Committee will be primarily responsible for recruitment of candidates with appropriate capacity to be Directors. Meanwhile, it will take into account board diversity policy in the selection. The Remuneration and Nomination Committee will discuss at least annually all the agreed measurable objectives to ensure the continuous effectiveness of the Board.

### **(XI) Amendments to the Articles of Association**

During the Reporting Period, the Company had no amendments to the Articles of Association.

### **(XII) Risk Management and Internal Control**

The Group's risk management and internal control systems are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board also recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis. In addition, the Audit Committee also has the responsibility for reviewing and assessing the Group's risk management and internal control systems.

## Corporate Governance Report (Continued)

### Responsibility statement of the Board on risk management and internal control

In accordance with the requirements of the Enterprise Internal Control Standard System and the Corporate Governance Code, it is the responsibility of the Board to establish, implement and oversee a sound and effective risk management and internal control systems, assess its effectiveness and truthfully disclose the assessment report. The Supervisory Committee monitored the establishment and implementation of risk management internal control by the Board. The operating management is responsible for the organising and leading the daily operations of corporate risk management and internal control. The objectives of risk management and internal control of the Company are to guarantee the legal compliance of operations according to the laws and regulations, the implementation of the risk management and internal control systems, effective prevention of operational risks and moral hazards, asset security and completeness of clients and the Company, truthfulness, completeness, timeliness and accuracy of financial records and other information of the Company; and to enhance efficiency and results of operations. Since there are inherent limitations in risk management and internal control, only reasonable guarantees can be provided for achieving the abovementioned objectives.

During the year of 2016, the Company has adopted the following policies and procedures and taken the following measures to improve the risk management and internal control systems of the Group:

#### 1. Building of risk management and internal control systems

The Company has been attaching great importance to the building of risk management and internal control systems since its establishment, and continuing to strengthen the building of the risk management and internal control systems by virtue of reasonably formulating and effectively implementation various systems, measures and detailed rules, to enquire the effectiveness of the supervision and balance between departments and positions and lay the foundation for the Company's normalised development.

The Company has continuously improved internal management and actively carried out the building and optimisation of risk management and internal control systems during the course of the Company's operation and development in accordance with relevant requirements of external supervisory regulations such as the Corporate Governance Code under Appendix 14 to the Listing Rules, the Basic Standard for Enterprise Internal Control, the Norms for the All-rounded Risk Management of Securities Companies and the Guidance for the Internal Control of Securities Companies.

## Corporate Governance Report (Continued)

During the Reporting Period, based on gradual expansion of the Company's business and continuous enactment of external regulatory systems, the Company comprehensively streamlined the management systems, rebuilt and optimised 103 management systems; and achieved good results in aspects such as legal compliance of operations of the Company according to the laws and regulations, asset security and completeness of the Company and clients, truthfulness and completeness of financial reports and other relevant information of the Company, enhancement of operational efficiency and prevention of fraud risks.

The Company will continue to improve the risk management and internal control systems, sort out the present risk management and internal control processes and integrate the key points of the risk management and internal control work in respond to changes in the actual business situation of the Company and external regulatory laws and regulations. The Company will also update and improve various management and control measures for business processes and solidify the measures by means of relevant systems, so to make the risk management and internal control systems more systematic and scientific, and then form a long-term effective management mechanism.

### 2. Risk management and internal control appraisal

On 24 March 2017, Ruihua Certified Public Accountants LLP, the audit institution of the Company, produced Special Report on Internal Control of Hengtou Securities Co., Ltd. (Rui Hua Zhuan Shen Zi No.[2017]01360023) 《恒泰證券股份有限公司內部控制專項報告》(瑞華專審字[2017]01360023號) regarding the Company's risk management and internal control, believing that the Company has maintained effective risk management and internal control over financial reporting in all material respects during the Reporting Period according to the Basic Standard for Enterprise Internal Control and relevant regulations.

There are inherent limitations in risk management and internal control, and the internal environment, macro environment, policies and regulations are constantly changing, which may lead to the deviation of previous management and control activities. As a result, the risk management and internal control can only provide reasonable guarantee to achieve the aforesaid objectives. Nevertheless, the Company has established an independent and objective mechanism for internal review and audit, which requires regular inspection as to compliance of daily business operation and timely update and improvement as to risk management and internal control systems pursuant to the provisions of internal and external rules and regulations from time to time, which as the subsequent supervision after the risk management and internal control, thus formed a closed loop of risk management and internal control and promoted the sustainable development of the Company.

## Corporate Governance Report (Continued)

Pursuant to the Basic Standard for Enterprise Internal Control and ancillary guidelines, the Guidance for the Internal Control of Securities Companies issued by China Securities Regulatory Commission and the requirements of relevant standards, the Board has conducted an overall appraisal on the internal control for the period from 1 January 2016 to 31 December 2016. The appraisal scope comprises 27 first-tier business processes including securities brokerage business, margin financing and securities lending, OTC transaction business, asset custody business, fund businesses and futures brokerage business and other businesses, with over 1,000 risk control points.

The Board believed that the Company has established a relatively sound risk management and internal control systems. During the Reporting Period, the Company has maintained continuous effective risk management and internal control in all material respects. As such, the Company did not have major defects in terms of risk management and internal control mechanism and system as well as material deviation regarding the implementation process, which means the overall risk management and internal control was effective.

### 3. Other matters

#### (1) Building of compliance system

During the Reporting Period, the Company, in strict accordance with relevant requirements of laws and regulations, carefully implemented requirements on industrial supervision and those of compliance management set by the Board and carried out overall compliance management in order, taking risk control as the starting point, implementation of internal control as the measure and effective management as the goal.

As the main bodies of compliance management duties, the Board, the Supervisory Committee, the management team, the chief compliance officer, the compliance department, the leaders of all the business departments and branches, in accordance with the Provisional Regulatory Requirements on Compliance Management of Securities Companies and related regulatory measures stipulated by the CSRC, the Compliance Management Measures of Hengtai Securities Co., Ltd and other corporate rules formulated by the Company, continuously improve the duty system of all levels regarding compliance management and earnestly fulfil respective duties thereof so as to promote the operation of all businesses in compliance with regulations.

## Corporate Governance Report (Continued)

### ① Constantly improving the Company's compliance management system

Organising all departments, branches, subsidiaries to sort out internal control system and formulate planning for system building, the Company required that the internal control system should exactly reflect regulatory requirements and operational rules so as to provide standardized guidance for the business operation.

### ② Carrying out compliance inspection and consultation

Compliance inspection and consultation are important means to take business compliance risk under control. During the Reporting Period, the Company continuously improved the efficiency of compliance inspection and consultation and produced compliance opinions and advices with discretion.

The Company organised reviews over 263 projects submitted by all the departments, 4,194 agreements and contracts relating to the Company, 533 applications for various authority and 864 approvals on other matters and issued 146 compliance opinions.

### ③ Organisation of compliance training and promotion thereof

Building a regular compliance training and promotion mechanism will facilitate understanding and mastery over laws, regulations and the internal control system, and development of proactive compliance awareness, thus creating sound compliance atmosphere. During the Reporting Period, the Company organised 26 compliance trainings including 9 internal trainings and attended 17 trainings arranged by the Securities Association of China and other regulatory authorities.

## Corporate Governance Report (Continued)

### ④ Strengthening information firewall

During the Reporting Period, the Company periodically identified people involving sensitive information and maintained name lists for inspection and restriction. The Company, added a module as information firewall on the internal control platform to facilitate business isolation management, avoiding interest conflicts and tunneling. The Company has sent 185 notices of name lists for restriction, 28 name lists for inspection and 8 notices for black-out Period.

### ⑤ Dealing with complaints and reporting matters

The Company specially appointed persons to collect complaints and reporting matters from all branches and business departments, tracked the progress, supervised related departments appropriately in dealing with the complaints and reporting matters and submitted complaints details by corporate clients to the regulatory authorities on a regular basis. There were 4 quarterly reports and 12 monthly reports on corporate client complaints delivered to the regulatory authorities during the Reporting Period.

### ⑥ Fulfilling obligations of anti-money laundering and financial stability

The Company seriously accomplished groundwork for anti-money laundering, continuously promoted anti-money laundering, constantly improved the quality of block-trading transactions reports and suspicious transactions reports, earnestly fulfilling its obligations of anti-money laundering. The Company also revised one anti-money laundering rule, organised all business lines to carry out self-appraisal on anti-money laundering and timely reported to the People's Bank of China Hohhot Branch the significant events and regularly submitted various reports and statements. There were 54 reports and statements submitted to the People's Bank of China Hohhot Branch during the Reporting Period on a timely manner.

## Corporate Governance Report (Continued)

- ⑦ Conducting appraisals regarding the effectiveness of compliance management.

During the Reporting Period, as authorised by the Board, the Company conducted appraisals regarding the effectiveness of compliance management in 2016. The Company conducted an overall appraisal on compliance of business development in terms of its progress followed by tracking, supervising, improving and implementing over issues discovered, and the compliance management mechanism of the Company was constantly improved as a result.

- (2) Inspections completed by the Compliance Department

During the Reporting Period, according to the requirements of regulatory authorities, the Company conducted compliance inspections with special focus on brokerage business, proprietary business, listing recommendation business in equity exchange, asset management business and others. Compliance advices for existing problems were offered with requirements of proactive improvement by all departments in charge and subsequent implementation.

In view of the fast pace in establishment of securities branches in recent years and its existing wide regional distribution, for the purpose of strengthening management on securities branches, promptly identifying potential risks and promoting compliance development of business. Compliance inspections involving 31 securities branches were conducted during the Reporting Period.

- (3) Inspection and audit completed by the Audit Department

The Group has an internal audit function. During the Reporting Period, the Company carried out comprehensive review and audit work with internal audit focused on regulatory key points, key positions, high risk and new business aspects and accurately. It established projects adhering to the corporate strategy and achieved the working goal of full coverage of internal audit. The Company continued to enhance the three-level review mechanism for audit projects by placing emphasis on achievement of audit results and innovating audit thoughts and methods. It further constantly improved audit quality of projects, timely notified, regularly followed up and continually supervised the issues identified during the audit, thus effectively increased the proportion of audit rectification and awareness of risk prevention of the units being audited, and resolved potential risks.

## Corporate Governance Report (Continued)

During the Reporting Period, the Company completed 60 audits, representing 120% of the total audits, and produced 56 audit briefs, 59 auditor's reports, 3 management advices and submitted more than 240 enquiry letters regarding audit risks to the management and relevant departments and issued 4 quarterly reports on progress of rectification supervision.

(4) Monitoring risk control indicators and building replenishment mechanism

With the purpose of building a risk control indicator system centering on net capital and liquidity, enhancing internal control and effectively preventing and resolving operational risks, the Company, pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies, the Guidance for the Dynamic Monitoring System of the Risk control indicators of the Securities Companies and other regulations, in view of the actual situation, defined the Administrative Measures for Risk Control Indicators of Hengtai Securities Co., Ltd and the Regulations for Stress Testing of Hengtai Securities Co., Ltd and other internal control rules and made revision and improvement in due course. The Company established a monitoring system for net capital in order to monitor the risk control indicators centered on net capital and liquidity and alerted thereof. The Company analysed relevant circumstances which have material adverse effect on it according to monitoring results from risk control indicators and reported to the chief risk officer in a timely manner of the Company. Within three working days after adverse change of the risk control indicators exceeding 20% as compared with previous month, the Company would report to CSRC and its agencies with basic information and reason for such change.

According to usage of risk capital in various businesses and its income levels, the Company adjusted certain businesses structure, appropriately controlled business scale, increased frequency for stress test and the applicable scope to ensure risk control indicators to satisfy the regulatory requirements on a continuous basis. The Company would conduct stress test of risk control indicators before events such as carrying out new business and significant business, distributing profit and expanding business scale which will make impact on net capital and other risk control indicators. Through building stress scenario database, adopting analysis method integrating quantity and quality, measuring the change of net capital and other risk control indicators as well as liquidity indicators under stress scenarios, the stress test represents the process that the Company evaluates the risk tolerance, reasonably defines the maximum scale of relevant business and allocation of profit and takes necessary responsive measures.

## Corporate Governance Report (Continued)

The Company, according to regulatory requirements regarding liquidity risks, further optimised its assets and liabilities structure, adopted several measures to replenish capital when necessary so as to foster long-term and steady development.

### (5) Standardisation of accounts

The Company carried out account management in strict accordance with the relevant requirements of account management, made the account management normalisation, standardisation and systematism, so as to further improve the long-term effective mechanism of standardised management of accounts.

During the Reporting Period, the Company further strengthened the management of account opening, effectively avoided the unqualified account by intensifying supervision and review; and standardised and cleaned up the unqualified, dormant and risk disposal accounts. As at the end of Reporting Period, the Company logged 41 unqualified accounts, 19,985 pure capital accounts, 1,210 corporate frozen accounts, 16 corporate judicially frozen accounts, and no risk disposal account. The Company will continue to strengthen standardised management of accounts, strictly executive the systems for internal accountability of standardised management of accounts and effectively implement various works of standardised management of accounts.

### 4. Procedures and internal controls for the handling and dissemination of inside information

During the year of 2016, the Company provided inside information training courses to the Directors and senior management of the Company to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is assessed in a timely manner and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

## Corporate Governance Report (Continued)

### 5. Process used to identify, evaluate and manage significant risks

Details of the significant risks of the Company and the process used to identify, evaluate and manage the same are set out the subsection headed “VIII. Risk Factors and Countermeasures” under Section 5 “Management Discussion and Analysis” and forms a part of this Corporate Governance Report.

The Board normally conducts review of the effectiveness of the risk management and internal control systems at least on an annual basis. During the year of 2016, the Board, together with the Audit Committee and the Risk Control and Supervisory Committee, has conducted reviews of the risk management and internal control systems of the Company, covering all material controls, financial, compliance and operational controls as well as risk management mechanisms once and considered the risk management and internal control systems of the Company are adequate and being implemented effectively.

# Appendix Particulars of Securities Branches

As at the end of the Reporting Period, the Company had established 136 securities branches, details of which are set out in the following table:

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
1	Hengtai Securities Co., Ltd. Changchun Dongfeng Avenue Securities Branch (恒泰證券股份有限公司長春東風大街證券營業部)	Yiqi Finance Building, No. 711 Dongfeng Avenue, Automotive Industry Development Zone, Changchun, Jilin (吉林省長春市汽車產業開發區東風大街711號一汽財務大廈)	1990.5.12	Dong Xishen (董錫深)	0431-87626400
2	Hengtai Securities Co., Ltd. Changchun Dongsheng Avenue Securities Branch (恒泰證券股份有限公司長春東盛大街證券營業部)	No. 2348 Dongsheng Avenue, Erdao District, Changchun, Jilin (吉林省長春市二道區東盛大街2348號)	1990.5.12	Zhao Chunrui (趙春瑞)	0431-84947885
3	Hengtai Securities Co., Ltd. Hohhot Xincheng North Street Securities Branch (恒泰證券股份有限公司呼和浩特新城北街證券營業部)	No. 62 Xincheng North Street, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市新城北街62號)	1992.6.23	Ba Gen (巴根)	0471-6922856
4	Hengtai Securities Co., Ltd. Changchun Xi'an Blvd Securities Branch (恒泰證券股份有限公司長春西安大路證券營業部)	15/F, No. 1077 Xi'an Blvd, Chaoyang District, Changchun, Jilin (吉林省長春市朝陽區西安大路1077號15層)	1992.11.27	Zhang Lifeng (張利峰)	0431-88497775
5	Hengtai Securities Co., Ltd. Changchun Beijing Avenue Securities Branch (恒泰證券股份有限公司長春北京大街證券營業部)	No. 1223 Beijing Avenue, Kuancheng District, Changchun, Jilin (吉林省長春市寬城區北京大街1223號)	1993.4.23	Zhu Qingguo (朱慶國)	0431-82703518
6	Hengtai Securities Co., Ltd. Changchun Gongnong Road Securities Branch (恒泰證券股份有限公司長春工農大路證券營業部)	22/F and 23/F, No. 1055 Gongnong Road, Changchun, Jilin (吉林省長春市工農大路1055號22/23層)	1993.4.24	Liu Guangsen (劉廣森)	0431-85647591
7	Hengtai Securities Co., Ltd. Hohhot Ulanqab East Road Securities Branch (恒泰證券股份有限公司呼和浩特烏蘭察布東街證券營業部)	4/F, Building 102, "Yuanyi Yujing", Ulanqab East Road, Saihan District, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市賽罕區烏蘭察布東街“園藝御景”102號樓4層)	1993.6.4	Jin Xuxia (金旭霞)	0471-4962351
8	Hengtai Securities Co., Ltd. Baotou Gangtie Street Securities Branch (恒泰證券股份有限公司包頭鋼鐵大街證券營業部)	5/F, Commercial guild hall Office, No. 56, Kunqu Gangtie Avenue, Baotou, Inner Mongolia (內蒙古自治區包頭市昆區鋼鐵大街56號工商會館寫字樓5樓)	1993.10.22	Yang Huilin (楊慧琳)	0472-6990128
9	Hengtai Securities Co., Ltd. Hohhot Zhongshan West Road Securities Branch (恒泰證券股份有限公司呼和浩特中山西路證券營業部)	No. 66 Zhongshan West Road, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市中山西路66號)	1993.10.22	Kang Cheng (康誠)	0471-6286962

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
10	Hengtai Securities Co., Ltd. Chifeng Hada Street Securities Branch (恒泰證券股份有限公司赤峰哈達街證券營業部)	Building 1, Jiushenmiao neighborhood committee, Xitun Office, Hongshan District, Chifeng, Inner Mongolia (內蒙古自治區赤峰市紅山區西屯辦事處九神廟居委會1號樓)	1996.8.20	Zhang Hongyun (張紅雲)	0476-8353933
11	Hengtai Securities Co., Ltd. Shanghai Xiangde Road Securities Branch (恒泰證券股份有限公司上海祥德路證券營業部)	No. 383 Xiangde Road Shanghai (上海市祥德路383號)	1996.10.30	Lian Wanpeng (連萬鵬)	021-65085138
12	Hengtai Securities Co., Ltd. Shenzhen Meilin Road Securities Branch (恒泰證券股份有限公司深圳梅林路證券營業部)	No. 115 and 217, Building 29, Block 5, Meilin Yicun, 148-12 Meilin Road, Futian District, Shenzhen (深圳市福田區梅林路148-12號梅林一村5區29棟115、217號)	1996.11.4	Liu Jianjun (劉建軍)	0755-83534805
13	Hengtai Securities Co., Ltd. Shanghai Zhangyang Road Securities Branch (恒泰證券股份有限公司上海張楊路證券營業部)	4/F, No. 3399 Zhangyang Road, Pudong District, Shanghai (上海市浦東新區張楊路3399號四層)	1996.12.21	Li Lisong (李麗松)	021-68533517
14	Hengtai Securities Co., Ltd. HLD Hexi development District Securities Branch (恒泰證券股份有限公司海拉爾河西開發區證券營業部)	Complex Office Building of Administration Commission, Hailaer Economic and Technological Development Zone, Hulunbeir, Inner Mongolia (內蒙古自治區呼倫貝爾市海拉爾區經濟技術開發區管委會辦公綜合樓)	1997.7.30	Zhu Shengwang (朱勝望)	0470-8352899
15	Hengtai Securities Co., Ltd. Ulanqab Jianshe Road Securities Branch (恒泰證券股份有限公司烏蘭察布市建設路證券營業部)	Room 301, 302, 303, Building K18 Anda Guoji Jiayuan, Enhe Road, Jining District, Ulanqab, Inner Mongolia (內蒙古自治區烏蘭察布市集寧區恩和路安大國際嘉園K18棟301、302、303)	1997.7.31	Guo Lifeng (郭立峰)	0474-8222000
16	Hengtai Securities Co., Ltd. Hohhot Xilin South Road Securities Branch (恒泰證券股份有限公司呼和浩特市賽罕南路證券營業部)	No. 601, Block C, Yingjia Guoji, Xilin South Road, Saihan District, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市賽罕區錫林南路盈嘉國際C座601號)	1997.8.5	Li Sheng (李聖)	0471-6917051
17	Hengtai Securities Co., Ltd. Dongsheng Erdos Street Securities Branch (恒泰證券股份有限公司東勝鄂爾多斯大街證券營業部)	No. 11 Erdos West Street, Dongsheng, Inner Mongolia (內蒙古自治區東勝市鄂爾多斯西街11號)	1997.8.13	He Jun (何軍)	0477-8331678
18	Hengtai Securities Co., Ltd. Linhe District Shengli North Road Securities Branch (恒泰證券股份有限公司臨河勝利北路證券營業部)	4/F, Hua'ao Building, No.1 Shengli North Road, Linhe District, Bayannur, Inner Mongolia (內蒙古自治區巴彥淖爾市臨河區勝利北路1號華澳大廈四層)	1997.8.13	Cheng Xiaohu (程小虎)	0478-8226336

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
19	Hengtai Securities Co., Ltd. WuHai Haila South Road Securities Branch(恒泰證券股份有限公司烏海海拉南路證券營業部)	No. 26 Haila South Road, Haibowan District, Wuhai, Inner Mongolia(內蒙古自治區烏海市海勃灣區海拉南路26號)	2000.8.3	Lv Zhongkai (呂忠凱)	0473-2017526
20	Hengtai Securities Co., Ltd. Jingyang Road Securities Branch(恒泰證券股份有限公司長春景陽大路證券營業部)	Building A5, Zhonghai Kaixuanmen, Qimao Community East Jingyang Road South, Lvyuan District, Changchun, Jilin (吉林省長春市綠園區汽貿小區以東景陽大路以南中海凱旋門A5幢)	2000.9.18	Liu Hong (劉宏)	0431-87989955
21	Hengtai Securities Co., Ltd. Beijing Nanbinhe Road Securities Branch(恒泰證券股份有限公司北京南濱河路證券營業部)	(2/F, Gaoxin Building) No. 1 South Binhe Road, Guang'anmenwai, Xuanwu District, Beijing(北京市宣武區廣安門外南濱河路1號(高新大廈二層))	2000.9.30	Gao Wa (高娃)	010-63280100
22	Hengtai Securities Co., Ltd. Changchun Renmin Street Redbuds Securities Branch(恒泰證券股份有限公司長春人民大街紫荊花證券營業部)	Southern Zone, 15/F, Redbuds Hotel, No. 5688 Renmin Street, Nanguan District, Changchun, Jilin(吉林省長春市南關區人民大街5688號紫荊花飯店十五層南區)	2002.2.27	Cui Chunyu (崔春雨)	0431-82982159
23	Hengtai Securities Co., Ltd. Jilin Zhongxing Street Securities Branch(恒泰證券股份有限公司吉林中興街證券營業部)	No. 105-1 Zhongxing Street, Changyi District, Jilin City, Jilin Province(吉林省吉林市昌邑區中興街105-1號)	2002.6.6	Su Xiurong (宿秀榮)	0432-62785999
24	Hengtai Securities Co., Ltd. Beijing Dongzhimennei North Alley Securities Branch(恒泰證券股份有限公司北京東直門內北小街證券營業部)	Rooms 101 & 201, Building No. 14 & No. 18, North Alley, Dongzhimennei, Dongcheng District, Beijing(北京市東城區東直門內北小街14、18號樓101、201號)	2003.3.28	Shi Min (史敏)	010-84128668
25	Hengtai Securities Co., Ltd. Shanghai Xiaomuqiao Road Securities Branch(恒泰證券股份有限公司上海小木橋路證券營業部)	Room 1001-1004, No. 251 Xiaomuqiao Road, Xuhui District, Shanghai(上海市徐匯區小木橋路251號1001、1002、1003、1004室)	2003.5.16	Gao Xiaochun (高小春)	021-64433290
26	Hengtai Securities Co., Ltd. Nanjing Shuiximen Avenue Securities Branch(恒泰證券股份有限公司南京水西門大街證券營業部)	No. 203 Shuiximen Avenue, Jianye District, Nanjing, Jiangsu(江蘇省南京市建邺區水西門大街203號)	2003.9.30	Chong Xinong (崇曦農)	025-84780368
27	Hengtai Securities Co., Ltd. Hangzhou Fengqi Road Securities Branch(恒泰證券股份有限公司杭州鳳起路證券營業部)	Block A-J, Room 801, No. 96 Fengqi Road, Xiacheng District, Hangzhou, Zhejiang(浙江省杭州市下城區鳳起路96號801室A-J座)	2004.7.20	Chen Yiping (陳宜平)	0571-85802451

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
28	Hengtai Securities Co., Ltd. Shenyang Fengtian Street Securities Branch(恒泰證券股份有限公司瀋陽奉天街證券營業部)	6/F, Hengyun Business Buiding, No. 351 Fengtian Street, Shenhe District, Shenyang, Liaoning(遼寧省瀋陽市瀋河區奉天街351號恒運商務大廈6樓)	2004.9.10	Heng Jianwei (衡建偉)	024-31211288
29	Hengtai Securities Co., Ltd. Jinan Jiefang Road Securities Branch(恒泰證券股份有限公司濟南解放路證券營業部)	4/F, Block A East, Guohua Building, 30-1 Jiefang Road, Jinan, Shandong(山東省濟南市解放路30-1國華大廈A座東四層)	2006.11.29	Bai Rong (白榮)	0531-81853932
30	Hengtai Securities Co., Ltd. Chifeng Pingzhuanghahe Street Securities Branch(恒泰證券股份有限公司赤峰平莊哈河街證券營業部)	Pingzhuanghahe Street East North, Yuanbaoshan District, Chifeng, Inner Mongolia(內蒙古自治區赤峰市元寶山區平莊哈河街東段北側)	2009.1.20	Wang Yuelong (王躍龍)	0476-3517417
31	Hengtai Securities Co., Ltd. Tongliao Central Avenue Securities Branch(恒泰證券股份有限公司通遼中心大街證券營業部)	(Underground 114 and 115, 1-2/F, Building 6, Halal Check-in Halal Community) Yong'an Middle Road, Khorchin District, Tongliao, Inner Mongolia(內蒙古自治區通遼市科爾沁區永安路中段(清真辦理處清真小區6號樓1-2層和地下室114、115室))	2009.1.20	Tian Chunyan (田春艷)	0475-2397878
32	Hengtai Co., Ltd. Beijing Dongsanhuan Central Securities Branch(恒泰證券股份有限公司北京東三環中路證券營業部)	1/F, 11A, and 2/F, 11B, Building 5, No. 76 Baizwan South Second Road, Chaoyang District, Beijing(北京市朝陽區百子灣南二路76號院5號樓1層11A、2層11B)	2009.3.10	Yang liu (楊柳)	010-87751985
33	Hengtai Securities Co., Ltd. Shanghai Shuidian Road Securities Branch(恒泰證券股份有限公司上海水電路證券營業部)	No. 1461 Shuidian Road, Hongkou District, Shanghai(上海市虹口區水電路1461號)	2009.3.10	Chen Yong (陳勇)	021-65617128
34	Hengtai Securities Co., Ltd. Xilinhot Tuanjie Avenue Securities Branch(恒泰證券股份有限公司錫林浩特團結大街證券營業部)	Xinlinguole Hotel Business Building, Tuanjie Avenue, Xilinhot, Inner Mongolia(內蒙古自治區錫林浩特市團結大街錫林郭勒賓館商業樓)	2009.5.11	Xu Changfeng (徐長鋒)	0479-8248846
35	Hengtai Securities Co., Ltd. Baotou Qingshan District Ziyou Road Securities Branch(恒泰證券股份有限公司包頭青山區自由路證券營業部)	No. 24 Ziyou Road, Qingshan District, Baotou, Inner Mongolia(內蒙古自治區包頭市青山區自由路24號)	2009.6.8	Du Hongwei (杜宏偉)	0472-6962838
36	Hengtai Securities Co., Ltd. Baotou Youyi Street Securities Branch(恒泰證券股份有限公司包頭友誼大街證券營業部)	No. 126 Culture Creativity Park, No. 67 Youyi Street, Qingshan District, Baotou, Inner Mongolia(內蒙古自治區包頭市青山區友誼大街67號文化創意園-126號)	2009.6.8	Wang Wenxue (王文學)	0472-2318629

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
37	Hengtai Securities Co., Ltd. Chifeng Tianyi Road Securities Branch(恒泰證券股份有限公司赤峰天義路證券營業部)	B9 South, Bajiazutuan Yulongjiayuan Community, Xincheng District, Chifeng, Inner Mongolia(內蒙古自治區赤峰市新城區八家組團玉龍家園小區B9南側廳)	2009.6.22	Zhao Zhongxin (趙忠信)	0476-8828997
38	Hengtai Securities Co., Ltd. Erdos Xuejiawan Junggar Road Securities Branch(恒泰證券股份有限公司鄂爾多斯薛家灣准格爾路證券營業部)	2/F, Donghua Commercial-residential Building, Junggar Road South Power Supply Administration East, Xinglong Avenue, Junggar Banner, Inner Mongolia(內蒙古自治區准格爾旗興隆街道准格爾路南供電局東東華商住樓二樓)	2009.6.23	Huang Haikuan (黃海寬)	0477-4212298
39	Hengtai Securities Co., Ltd. Yakeshi Yingbin West Street Securities Branch(恒泰證券股份有限公司牙克石迎賓西街證券營業部)	Zonghe Building, Yingbin West Street, Yakeshi, Hulunbeir, Inner Mongolia(內蒙古自治區呼倫貝爾市牙克石市迎賓西街鐵龍綜合樓)	2009.10.23	Geng Zhenshan (耿振山)	0470-7357266
40	Hengtai Securities Co., Ltd. Zhalantun Central Road Securities Branch(恒泰證券股份有限公司紮蘭屯中央路證券營業部)	Former Nongken Mall Building, Yong'anju Central Road, Zhengyangban, Zhalantun, Hulunbeir, Inner Mongolia(內蒙古自治區扎蘭屯市正陽辦永安居中央路原農壘商場樓)	2009.10.23	Wang Jian (王劍)	0470-3218116
41	Hengtai Securities Co., Ltd. Manchuria Shulin Road Securities Branch(恒泰證券股份有限公司滿洲里樹林路證券營業部)	2/F, Jinding Building, Shulin Road, North District, Manchuria, Inner Mongolia(內蒙古自治區滿洲里市北區樹林路金鼎大廈2樓)	2009.10.23	Wang Qiming (王啟明)	0470-6239595
42	Hengtai Securities Co., Ltd. Erenhot Xinhua Avunue Securities Branch(恒泰證券股份有限公司二連浩特新華大街證券營業部)	No. 010110, Building 5, Xuefuxinyuan Community, Xinhua Avunue North Qianjin Road West, Erenhot, Inner Mongolia(內蒙古自治區二連浩特市新華大街北、前進路西學府馨苑小區5號樓010110號)	2009.11.4	Huo Dongsheng (霍東勝)	0479-7517860
43	Hengtai Securities Co., Ltd. Alashan League Bayanhaot Jilantai Road Securities Branch(恒泰證券股份有限公司阿拉善盟巴彥浩特吉蘭泰路證券營業部)	Minsheng Garden Shop, Jilantai Road South, Bayanhaot Town, Alashan League Alashan Left Banner, Inner Mongolia(內蒙古自治區阿拉善盟阿拉善左旗巴彥浩特鎮吉蘭泰路南民生花園商鋪)	2009.11.23	Zhang Mei (張玫)	0483-8351609
44	Hengtai Securities Co., Ltd. Jilin Panshi Dongning Street Securities Branch(恒泰證券股份有限公司吉林磐石東寧街證券營業部)	Room 6 and 7, No. 11 Longchang Shangcheng, Dongning Street, Panshi, Jilin(吉林省磐石市東寧街隆昌上城11號樓6、7號門市)	2010.2.9	Bie Wei (別畏)	0432-65043666

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
45	Hengtai Securities Co., Ltd. Baishan Hunjiang Street Securities Branch(恒泰證券股份有限公司白山渾江大街證券營業部)	Justice Bureau, Xinjian Street, Badaojiang District, Baishan, Jilin(吉林省白山市八道江區新建街司法局門市)	2010.3.17	Li Jie (李傑)	0439-3299456
46	Hengtai Securities Co., Ltd. Tonghua Dongchang Road Securities Branch(恒泰證券股份有限公司通化東昌路證券營業部)	No. 665 Dongchang Road, Dongchang District, Tonghua, Jilin(吉林省通化市東昌區東昌路665號)	2010.8.5	Jing Yafu (經亞夫)	0435-3707171
47	Hengtai Securities Co., Ltd. Baicheng Changqing South Street Securities Branch(恒泰證券股份有限公司白城長慶南街證券營業部)	Room 2-1, No. 8 Building, Changqing South Street, Baicheng, Jilin(吉林省白城市長慶南街8號樓2-1門市)	2010.10.25	Xu Ke (徐克)	0436-3202666
48	Hengtai Securities Co., Ltd. Liaoyuan Fengshou Road Securities Branch(恒泰證券股份有限公司遼源豐壽路證券營業部)	No. 1 Fengshou Road, Xi'an District, Liaoyuan, Jilin(吉林省遼源市西安區豐壽路1號)	2010.10.28	Feng Dong (豐冬)	0437-6678008
49	Hengtai Securities Co., Ltd. Qianguo Hasaer Road Securities Branch(恒泰證券股份有限公司前郭哈薩爾路證券營業部)	2/F, No.18 & No.19 Zongshe Shangqi, Jinzuo Estate, Wenzhiwei District Hasaer, Qianguo County, Jilin(吉林省前郭縣哈薩爾文治委金座綜合商企18、19二層商鋪)	2011.3.16	Xu Jia (徐嘉)	0438-6620000
50	Hengtai Securities Co., Ltd. Erdos Dalad Banner Securities Branch(恒泰證券股份有限公司鄂爾多斯達拉特旗證券營業部)	Zonghe Building, Xinni Street South Xinhua Road East, Shulinzhao Town, Dalad Banner, Erdos, Inner Mongolia(內蒙古自治區鄂爾多斯市達拉特旗樹林召鎮錫尼街南新華路綜合樓)	2011.10.24	Li Chunping (李春平)	0477-5217087
51	Hengtai Securities Co., Ltd. Wuhai Wuda District Bayinsai Street Securities Branch(恒泰證券股份有限公司烏海烏達區巴音賽街證券營業部)	1/F Shop, No. 9, Jiefang South Road North to South, Binyuan Hotel, Wuda District, Wuhai, Inner Mongolia(內蒙古自治區烏海市烏達區賓源大酒店解放南路從北向南9號一層商鋪)	2011.10.24	Liu Qiuli (劉秋利)	0473-2022007
52	Hengtai Securities Co., Ltd. Baotou Salaqi Zhenhua Street Securities Branch(恒泰證券股份有限公司包頭薩拉齊振華大街證券營業部)	Shop No. 4, Main Tower of Tumed Right Hotel, Tumed Right Banner, Baotou, Inner Mongolia(內蒙古自治區包頭市土默特右旗振華大街土右賓館主樓4號底店)	2012.3.16	Wang Xiangyang (王向陽)	0472-8921256

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
53	Hengtai Securities Co., Ltd. Chifeng Ningcheng Daning Road Securities Branch(恒泰證券股份有限公司赤峰寧城大寧路證券營業部)	Huaxin Community, Daning Road East, Tianyi Town, Ningcheng County, Chifeng, Inner Mongolia(內蒙古自治區赤峰市寧城縣天義鎮大寧路東側(華鑫小區))	2012.3.16	Chen Shichao (陳世超)	0476-4255161
54	Hengtai Securities Co., Ltd. Beijing Finance Street Securities Branch(恒泰證券股份有限公司北京金融大街證券營業部)	Room 507, 5/F, Block C, No. 33 Finance Street, Xicheng District, Beijing(北京市西城區金融大街33號C座5層507)	2014.1.13	Gao Jia (高佳)	010-56673868
55	Hengtai Securities Co., Ltd. Beijing Xisihuan North Road Securities Branch(恒泰證券股份有限公司北京西四環北路證券營業部)	Room 109, Block 1, No. 160 Xisihuan North Road, Haidian District, Beijing(北京市海澱區西四環北路160號1層一區109)	2014.1.13	Zu Linlin (祖琳琳)	010-57851506
56	Hengtai Securities Co., Ltd. Chaozhou Chengxinxi Road Securities Branch(恒泰證券股份有限公司潮州城新西路證券營業部)	Shop 11 and 12, No. 1 Haiyi, Chengxinxi Road, Xiangqiao District, Chaozhou, Guangdong(廣東省潮州市湘橋區城新西路海逸一號11、12號商鋪)	2014.1.13	Ye Xi (葉璽)	0768-2520001
57	Hengtai Securities Co., Ltd. Shenzhen Shennan Avenue Securities Branch(恒泰證券股份有限公司深圳深南大道證券營業部)	Room 701, Yangguang Gao'erfu Building, Futian District, Shenzhen(廣東省深圳市福田區深南大道陽光高爾夫大廈701室)	2015.1.12	Shi Buren (施布仁)	0755-82828137
58	Hengtai Securities Co., Ltd. Zhongshan Zhongshan Forth Road Securities Branch(恒泰證券股份有限公司中山中山四路證券營業部)	Block 20, Building 81/82/83/85/, Shunjing Garden, East District, Zhongshan, Guangdong(廣東省中山市東區順景花園81/82/83/85/幢20卡)	2015.1.22	Li Jianhua (李建華)	0760-88833653
59	Hengtai Securities Co., Ltd. Liaocheng Huangshan South Road Securities Branch(恒泰證券股份有限公司聊城黃山南路證券營業部)	No. 310, Unit A, Kaixuan Building, 1 Huangshan South Road, Economic and Technological Development zone, Liaocheng, Shandong(山東省聊城市經濟技術開發區黃山南路1號凱旋大廈A單元310號)	2015.1.26	Wang Peng (汪鵬)	0635-2110887
60	Hengtai Securities Co., Ltd. Weifang Fushou East Street Securities Branch(恒泰證券股份有限公司濰坊福壽東街證券營業部)	Room 601, No. 1 Jinnuo Building, No. 5603 Fushou East Street, Kuiwen District, Weifang, Shandong(山東省濰坊市奎文區福壽東街5603號1號樓金諾大廈601室)	2015.1.29	Zhao Wenyan (趙文苑)	0536-8986553
61	Hengtai Securities Co., Ltd. Qingdao Nanjing Road Securities Branch(恒泰證券股份有限公司青島南京路證券營業部)	No. 33 Nanjing Road, Shinan District, Qingdao, Shandong(山東省青島市市南區南京路33號)	2015.2.3	Pang Jian (龐健)	0532-85710711

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
62	Hengtai Securities Co., Ltd. Shanghai Chengshan Road Securities Branch(恒泰證券股份有限公司上海成山路證券營業部)	3/F, No.2469-2471 (odd number) Chengshan Road, Pudong District, Shanghai(上海市浦東新區成山路2469-2471(單)號第三層)	2015.3.6	Meng Shuang (孟爽)	021-62030568
63	Hengtai Securities Co., Ltd. Shanghai Longhua East Road Securities Branch(恒泰證券股份有限公司上海龍華東路證券營業部)	Room 807, No. 858 Longhua East Road, Huangpu District, Shanghai(上海市黃浦區龍華東路858號807室)	2015.3.18	Yang Shifang (楊世芳)	021-63357216
64	Hengtai Securities Co., Ltd. Guangzhou Zhujiang West Road Securities Branch(恒泰證券股份有限公司廣州珠江西路證券營業部)	Self Unit 12, Room 3801, No. 17 Zhujiang West Road, Tianhe District, Guangzhou, Guangdong(廣東省廣州市天河區珠江西路17號3801房自編12單元)	2015.3.20	Lu Liang (盧亮)	020-38206520
65	Hengtai Securities Co., Ltd. Beijing Jianguo Road Securities Branch(恒泰證券股份有限公司北京建國路證券營業部)	No. 117 and 118, Building 19, 93 Jianguo Road, Chaoyang District, Beijing(北京市朝陽區建國路93號院19號樓117、118號)	2015.6.18	Liu Teng (劉騰)	010-59603207
66	Hengtai Securities Co., Ltd. Dalian Jinzhou Beishan Road Securities Branch(恒泰證券股份有限公司大連金州北山路證券營業部)	No. 1388-26 Beishan Road, Guangming Avenue, Jinzhou District, Dalian, Liaoning(遼寧省大連市金州區光明街道北山路1388-26號)	2015.6.26	Zhang Lei (張磊)	0411-68837268
67	Hengtai Securities Co., Ltd. Qingdao Yanerdao Road Securities Branch(恒泰證券股份有限公司青島燕兒島路證券營業部)	No.7a-9 Yanerdao Road, South District, Qingdao, Shandong(山東省青島市市南區燕兒島路7號甲-9號)	2015.6.30	Fan Shuhui (范曙輝)	0532-86108627
68	Hengtai Securities Co., Ltd. Beijing Suzhou Street Securities Branch(恒泰證券股份有限公司北京蘇州街證券營業部)	Building 11-16, No. 29, Suzhou Street, Haidian District, Beijing(北京市海澱區蘇州街29號11-16幢)	2015.7.1	Zhao Yajing (趙亞晶)	010-62423585
69	Hengtai Securities Co., Ltd. Changzhou Longjin Road Securities Branch(恒泰證券股份有限公司常州龍錦路證券營業部)	No. 7-105, Fuxi Garden Shop, Xinbei District, Changzhou, Jiangsu(江蘇省常州市新北區府西花園商鋪7-105號)	2015.7.2	Chen Le (陳樂)	0519-85551099
70	Hengtai Securities Co., Ltd. Chongqing Taishan Avenue Securities Branch(恒泰證券股份有限公司重慶泰山大道證券營業部)	13-3, 13-4, 13-5, Building 2, No. 62 Taishan Avenue East, North District, Chongqing(重慶市北部新區泰山大道東段62號2幢13-3、13-4、13-5)	2015.7.8	Shen Jie (申傑)	023-63109978
71	Hengtai Securities Co., Ltd. Wuhan Xibei Road Securities Branch(恒泰證券股份有限公司武漢西北湖路證券營業部)	No. 99 Beihu Road, Jiangnan District, Wuhan, Hubei(湖北省武漢市江漢區北湖小路99號)	2015.7.14	Fan Chunhua (范春華)	027-85898177

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
72	Hengtai Securities Co., Ltd. Shanghai Dujuan Road Securities Branch(恒泰證券股份有限公司上海杜鵑路證券營業部)	Underground 1/F and 1-2/F, No. 195 Dujuan Road, Pudong District, Shanghai(上海市浦東新區杜鵑路195號地下1、1-2層)	2015.7.20	Li Jianhao (李建毫)	021-68822819
73	Hengtai Securities Co., Ltd. Shanghai Dongfang Road Securities Branch(恒泰證券股份有限公司上海東方路證券營業部)	Shop 18, Lobby 1/F, Unit D2, 15/F, No. 778 Dongfang Road, Shanghai Pilot Free Trade Zone, Shanghai(上海自由貿易試驗區東方路778號15樓D2單元、1樓大堂18號商鋪)	2015.7.21	Chen Shaofeng (陳少峰)	
74	Hengtai Securities Co., Ltd. Beijing Shangdi Third Street Securities Branch(恒泰證券股份有限公司北京上地三街證券營業部)	Room 102, Door 3, 1/F, Building 3, Shangdi Information Industry Base Third Street, Haidian District, Beijing(北京市海澱區上地信息產業基地三街3號樓1層3門102)	2015.7.31	Cheng Zhanhua (程占華)	010-82899169
75	Hengtai Securities Co., Ltd. Shanghai Lujiazui Securities Branch(恒泰證券股份有限公司上海陸家嘴證券營業部)	Room 31026, 31/F, No. 66 Huayuan Shiqiao Road, Shanghai Pilot Free Trade Zone, Shanghai(上海自由貿易試驗區花園石橋路66號31層31026室)	2015.8.5	Huang Hui (黃輝)	021-61086538
76	Hengtai Securities Co., Ltd. Dongguan Dalang Meijing Middle Road Securities Branch(恒泰證券股份有限公司東莞大朗美景中路證券營業部)	Room 1101, 1102 and 1103, Finance Building, No. 568 Meijing Middle Road, Changtang Community, Dalang Town, Dongguan, Guangdong(廣東省東莞市大朗鎮長塘社區美景中路568號金融大廈1101、1102、1103號)	2015.8.12	Ruan Hai (阮海)	0769-81198561
77	Hengtai Securities Co., Ltd. Shanghai Haining Road Securities Branch(恒泰證券股份有限公司上海海甯路證券營業部)	Room 1905, No. 469 Wusong Road, Hongkou District, Shanghai(上海市虹口區吳淞路469號1905室)	2015.8.12	Pan Xiaoli (潘曉麗)	021-66275131
78	Hengtai Securities Co., Ltd. Foshan Foping Road Securities Branch(恒泰證券股份有限公司佛山佛平路證券營業部)	Shop 2/F, Yujing City Garden Qumingxuan, No. 6 Guichengfoping Third Road, Nanhai District, Foshan, Guangdong(廣東省佛山市南海區桂城佛平三路6號禦景城市花園趣鳴軒第二層商鋪)	2015.8.24	Xie Wen (謝文)	0757-86288102
79	Hengtai Securities Co., Ltd. Hangzhou Jianghong Road Securities Branch(恒泰證券股份有限公司杭州江虹路證券營業部)	Room 1008, Building 1, Xinyada International Creative center, No. 1750 Jianghong Road, Binjiang District, Hangzhou, Zhejiang(浙江省杭州市濱江區江虹路1750號信雅達國際創意中心1幢1008室)	2015.8.25	Zheng Yi (鄭逸)	0571-86965997

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
80	Hengtai Securities Co., Ltd. Hangzhou Tiancheng Road Securities Branch(恒泰證券股份有限公司杭州天城路證券營業部)	Room 501-504, 5/F, Building 1(Wanshili technology building), No. 68 Tiancheng Road, Jianggan District, Hangzhou, Zhejiang(浙江省杭州市江幹區天城路68號(萬事利科技大廈)1幢5樓501-504室)	2015.8.26	Wang Weifang (王偉芳)	0571-86538801
81	Hengtai Securities Co., Ltd. Beijing-Shenzhen Yitian Road Zhuoyue Times Square Securities Branch(恒泰證券股份有限公司深圳益田路卓越時代廣場證券營業部)	5007B-5008, 50/F, Zhuoyue Times Square, No. 4068 Yitian Road, Futian Street, Futian District, Shenzhen(廣東省深圳市福田區福田街道益田路4068號卓越時代廣場50樓5007B-5008)	2015.8.27	Wu Rongrong (伍榮榮)	0755-82801189
82	Hengtai Securities Co., Ltd. Shanghai Yanan West Road Securities Branch(恒泰證券股份有限公司上海延安西路證券營業部)	Room 2607, No.1116 Yanan West Road, Changning District Shanghai(上海市長寧區延安西路1116號2607室)	2015.9.6	Xu Enlei (徐恩雷)	021-62379677
83	Hengtai Securities Co., Ltd. Wenzhou Gu'an Road Securities Branch(恒泰證券股份有限公司溫州古岸路證券營業部)	Room 001 and 004, 3/F, Building 1, Yixiang Business Building, Ou Hai District, Wenzhou, Zhejiang(浙江省溫州市甌海區億象商廈第1幢3層001、004)	2015.9.6	Chen Kai (陳愷)	0577-88709188
84	Hengtai Securities Co., Ltd. Shanghai Zunyi Road Securities Branch(恒泰證券股份有限公司上海遵義路證券營業部)	Room 1210 and 1211, No. 100 Zunyi Road, Changning District Shanghai(上海市長寧區遵義路100號1210、1211室)	2015.9.10	Fu Duanyang (付端陽)	021-62785699
85	Hengtai Securities Co., Ltd. Beijing, Beixinzhuang Road Securities Branch(恒泰證券股份有限公司北京北辛莊路證券營業部)	Room 308, Block A, Beiruanshuangxin Kechuangyuan, Beixinzhuang Road, Sijiqing Town, Haidian District, Beijing(北京市海澱區四季青鎮北辛莊路北軟雙新科創園A座308房間)	2015.9.14	Zhang Jia (張佳)	010-62596752
86	Hengtai Securities Co., Ltd. Taizhou Shifu Avenue Securities Branch(恒泰證券股份有限公司台州市府大道證券營業部)	No. 387 and 389 Shifu Avenue, Taizhou, Zhejiang(浙江省台州市市府大道387、389號)	2015.9.16	Wang Sha'ou (王沙鷗)	0576-89039186
87	Hengtai Securities Co., Ltd. Guangzhou Tiyu West Road Securities Branch(恒泰證券股份有限公司廣州體育西路證券營業部)	Room 1205, No. 103 Tiyu West Road, Tianhe District, Guangzhou, Guangdong(廣東省廣州市天河區體育西路103號1205房)	2015.9.18	Zeng Jianyuan (曾建元)	020-38479013
88	Hengtai Securities Co., Ltd. Shanghai Xujiahui Road Securities Branch(恒泰證券股份有限公司上海徐家匯路證券營業部)	Room 19C, No. 555 Xujiahui Road, Huangpu District, Shanghai(上海市黃浦區徐家匯路555號19C室)	2015.9.21	Li Jingjing (李晶晶)	021-63083060

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
89	Hengtai Securities Co., Ltd. Yantai Yingchun Avenue Securities Branch(恒泰證券股份有限公司煙臺迎春大街證券營業部)	Room 316, Tianhe Building Annex, 163 Yingchun Avenue, Laishan District, Yantai, Shandong(山東省煙臺市萊山區迎春大街163號天和大廈附樓316室)	2015.9.23	Xing Xiaoliang (邢曉亮)	0535-2106601
90	Hengtai Securities Co., Ltd. Zhuhai Jiuzhou Avenue Fuhuali Securities Branch(恒泰證券股份有限公司珠海九洲大道富華里證券營業部)	No. 01, 7/F, Fuhuali Center Office, 2021 Jiuzhou Avenue West, Zhuhai, Guangdong(廣東省珠海市九洲大道西2021號富華里中心寫字樓7層01號)	2015.9.30	Guo Xiangfu (郭相甫)	0756-8626355
91	Hengtai Securities Co., Ltd. Shijiazhuang Huaian Road Securities Branch(恒泰證券股份有限公司石家莊槐安路證券營業部)	No. 1805, Ximei Wuzhou Building, Yaqing Street, Yuhua District, Shijiazhuang, Hebei(河北省石家莊市裕華區雅清街西美五洲大廈1805號)	2015.10.9	Lv Haijun (呂海軍)	0311-66500778
92	Hengtai Securities Co., Ltd. Shenzhen Longcheng Street Securities Branch(恒泰證券股份有限公司深圳龍城大道證券營業部)	Unit 1208, Zhengzhong Times Building, No.89 Longcheng Avenue, Longcheng Street, Shenzhen, Guangdong(廣東省深圳市龍崗區龍城街道龍城大道89號正中時代大廈1208單元)	2015.10.9	Long Xiaoling (龍小玲)	0755-89452231
93	Hengtai Securities Co., Ltd. Shenzhen Xiangmihu Road Securities Branch(恒泰證券股份有限公司深圳香蜜湖路證券營業部)	19, H (Block B), Chegongmiao Lvjing Square, No. 6009 Shennan Central Road, Shatou Street Futian District, Shenzhen(廣東省深圳市福田區沙頭街道深南中路6009號車公廟綠景廣場(B座)19·H)	2015.10.9	Shen Jing (沈靜)	0755-23909699
94	Hengtai Securities Co., Ltd. Taiyuan Pingyang Road Securities Branch(恒泰證券股份有限公司太原平陽路證券營業部)	Shop 1001-1003, 3/F, 14#, No. 65, Pingyang Road, Xiaodian District, Taiyuan, Shanxi(山西省太原市小店區平陽路65號14#三層1001-1003號商鋪)	2015.10.13	Li Dawei (李大偉)	0351-2793098
95	Hengtai Securities Co., Ltd. Shanghai Huanyuan Road Securities Branch(恒泰證券股份有限公司上海花園路證券營業部)	Room 1717, No. 16 Huayuan Road, Hongkou District, Shanghai(上海市虹口區花園路16號1717室)	2015.10.13	Mei Xiaowai (梅曉歲)	021-66081821
96	Hengtai Securities Co., Ltd. Jiaxing Huanyuan Road Securities Branch(恒泰證券股份有限公司嘉興花園路證券營業部)	Room 210, No. 892 Huanyuan Road, Jiaxing, Zhejiang(浙江省嘉興市花園路892號210室)	2015.10.13	Wang Shengao (王沈杲)	0573-83901338
97	Hengtai Securities Co., Ltd. Shanghai Longteng Avenue Securities Branch(恒泰證券股份有限公司上海龍騰大道證券營業部)	Room 101, No. 32, Lane 128 Longrui Road, 1/F, No. 469 Longteng Avenue, Xuhui District, Shanghai(上海市徐匯區龍騰大道469號一層、龍瑞路128弄32號101室)	2015.10.19	Huang Dan (黃丹)	021-64321216

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
98	Hengtai Securities Co., Ltd. Liuzhou Tianshan Road Securities Branch(恒泰證券股份有限公司柳州天山路證券營業部)	2-2-9 Tianshangcheng Community, No. 245 Shuinan Road, Liuzhou, Guangxi(廣西省柳州市水南路245號天山上城小區2-2-9號)	2015.10.21	WuXinghua (吳興華)	0772-8807519
99	Hengtai Securities Co., Ltd. Nanning Minzu Avenue Securities Branch(恒泰證券股份有限公司南寧民族大道證券營業部)	Room 2207 and 2208, 22/F, Bogongguoji, No.127 Minzu Avenue, Qingxiu District, Nanning, Guangxi(廣西省南寧市青秀區民族大道127號鉅宮國際22樓2207、2208號房)	2015.10.27	Qu Chi (區馳)	0771-5535796
100	Hengtai Securities Co., Ltd. Beijing Dongsanhuan North Road Securities Branch(恒泰證券股份有限公司北京東三環北路證券營業部)	06A09, 5/F, No. 2 Dongsanhuan North Road, Chaoyang District, Beijing(北京市朝陽區東三環北路2號5層06A09)	2015.11.2	Lin Pu (蘭璞)	010-84464188
101	Hengtai Securities Co., Ltd. Chaohui Road Securities Branch(恒泰證券股份有限公司杭州朝暉路證券營業部)	Room 1605, Wulin Century Business Center, Xiacheng District, Hangzhou, Zhejiang(浙江省杭州市下城區武林時代商務中心1605室)	2015.11.3	Wang Bao (王寶)	0571-86979032
102	Hengtai Securities Co., Ltd. Shanghai Qihe Road Securities Branch(恒泰證券股份有限公司上海齊河路證券營業部)	Block B, 1/F, 251 Qihe Road, Pudong District, Shanghai(上海市浦東新區齊河路251號一層B座)	2015.11.3	Chen Jiangong (陳建功)	021-58567577
103	Hengtai Securities Co., Ltd. Rui'an Gongruishan Road Securities Branch(恒泰證券股份有限公司瑞安拱瑞山路證券營業部)	No. 422 and 423 Gongruishan Road Anyang Street, Rui'an, Zhejiang(浙江省瑞安市安陽街道拱瑞山路422、424號)	2015.11.9	Jin Hairu (金海茹)	0577-66889168
104	Hengtai Securities Co., Ltd. Beijing Chaoyang Balizhuang Xili Securities Branch(恒泰證券股份有限公司北京朝陽八裡莊西裡證券營業部)	Room 210, 2/F, No. 99 Xili, Balizhuang, Chaoyang District, Beijing(北京市朝陽區八裡莊西裡99號2層210室)	2015.11.11	Miao Zhenyu (苗振宇)	010-85772321
105	Hengtai Securities Co., Ltd. Wuhan Yanjiang Avenue Securities Branch(恒泰證券股份有限公司武漢沿江大道證券營業部)	No.1 Tianjin Road, Yanjiang Avenue, Jiangan District, Wuhan, Hubei(湖北省武漢市江岸區沿江大道天津路1號)	2015.11.18	Li Jing (李晶)	027-82300618
106	Hengtai Securities Co., Ltd. Shenzhen Hongli Road Securities Branch(恒泰證券股份有限公司深圳紅荔路證券營業部)	Room 410 Agricultural business center, No. 8133 Hongli Road, Xiangmihu Street, Futian District, Shenzhen(廣東省深圳市福田區香蜜湖街道紅荔8133號農科商務中心410室)	2015.11.24	Sun Rui (孫睿)	0755-33015807

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
107	Hengtai Securities Co., Ltd. Shanghai Boshan Road Securities Branch(恒泰證券股份有限公司上海博山路證券營業部)	Room 109B and Room C, No. 6, Lane 202, Boshan Road, China (Shanghai) Pilot Free Trade Zone(中國(上海)自由貿易試驗區博山路202弄6號109B、C室)	2015.12.9	Chen Haiming (陳海明)	021-68781070
108	Hengtai Securities Co., Ltd. Beijing Nanhu South Road Securities Branch(恒泰證券股份有限公司北京南湖南路證券營業部)	Room 102, Building 4, No. 16 Nanhu South Road, Chaoyang District, Beijing(北京市朝陽區南湖南路16號院4號樓102室)	2015.12.12	Zhang Ge (張戈)	010-64738862
109	Hengtai Securities Co., Ltd. Beijing Wanfeng Road Securities Branch(恒泰證券股份有限公司北京萬豐路證券營業部)	Unit A2-13, 2/F, Block A, Wankai Central, No. 316 Wanfeng Road, Fengtai District, Beijing(北京市豐台區萬豐路316號萬開中心A座2層A2-13單元)	2015.12.14	Xue Fenxia (薛粉霞)	010-83669805
110	Hengtai Securities Co., Ltd. ShenYang Yunfeng Street Securities Branch(恒泰證券股份有限公司瀋陽雲峰街證券營業部)	(3 Door) No. 15-1 Yunfeng North Street, Tiexi District, Shenyang, Liaoning(遼寧省瀋陽市鐵西區雲峰北街15-1號(3門))	2015.12.14	Gao Xiufeng (高秀峰)	024-82573500
111	Hengtai Securities Co., Ltd. Hangzhou Fuchun Road Securities Branch(恒泰證券股份有限公司杭州富春路證券營業部)	Room 1006, Building 3, Qianjiang International Times Square, Jianggan District, Hangzhou, Zhejiang(浙江省杭州市江幹區區錢江國際時代廣場3幢1006室)	2015.12.16	Zhuang Bin (莊斌)	0571-87899203
112	Hengtai Securities Co., Ltd. Shenzhen Jintian Road Securities Branch(恒泰證券股份有限公司深圳金田路證券營業部)	Room 812 Rongchao Jingmao Building, Jintian Road, Futian District, Shenzhen, Guangdong(廣東省深圳市福田區金田路榮超經貿大廈812)	2015.12.16	Liu Zhenfu (劉真富)	0755-23914745
113	Hengtai Securities Co., Ltd. Huizhou Bailuhu Securities Branch(恒泰證券股份有限公司惠州白鷺湖證券營業部)	Room 07, 1/F, Building 4, Hubin Fengqing Commercial Street, Yajule Avenue, Ruhu Town, Huicheng District, Huizhou, Guangdong(廣東省惠州市惠城區汝湖鎮雅居樂大道1號湖濱風情商業街4棟1層07號)	2016.1.18	Liu Wei (劉威)	0752-7399393
114	Hengtai Securities Co., Ltd. Shaoxing Shengli Road Securities Branch(恒泰證券股份有限公司紹興勝利路證券營業部)	Room 1301, Shimao horizon Center, No. 379 Shengli East Road, Shaoxing, Zhejiang(浙江省紹興市勝利東路379號世茂天際中心1301室)	2016.1.18	Liu Lingyu (劉玲玉)	0575-88002391
115	Hengtai Securities Co., Ltd. Tianjin Hedong Shiyijing Road Securities Branch(恒泰證券股份有限公司天津河東十一經路證券營業部)	Room 1602 and Room 1605, 16/F, Hedong Finance Tower, No. 7 Shiyijing Road, Hedong District, Tianjin(天津市河東區十一經路7號河東金融大廈16層1602、1605室)	2016.1.19	Xu Dongping (徐東平)	022-58180660

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
116	Hengtai Securities Co., Ltd Shenzhen Wenjing Road Securities Branch(恒泰證券股份有限公司深圳文錦路證券營業部)	3/F, No. 1081 Wenjing North, Sungang Avenue, Luohu District, Shenzhen, Guangdong(廣東省深圳市羅湖區筍崗街道文錦北1081三樓)	2016.1.21	Mai Lv (麥綠)	0755-22922980
117	Hengtai Securities Co., Ltd Shangyu Civic Blvd Securities Branch*恒泰證券股份有限公司上虞市民大道證券營業部	8/F, Wuzhou Tower, Civic Blvd, Baiguan Avenue, Shangyu District, Shaoxing, Zhejiang(浙江省紹興市上虞區百官街道市民大道五洲大廈8樓)	2016.1.27	Xu Min (徐敏)	0575-82000820
118	Hengtai Securities Co., Ltd Shanghai Xinjinjiao Road Securities Branch(恒泰證券股份有限公司上海新金橋路證券營業部)	Room 303, Unit 7, No. 1599 Xinjinjiao Road, (Shanghai) Pilot Free Trade Zone, Shanghai, China(中國(上海)自由貿易試驗區新金橋路1599號7幢303室)	2016.1.28	Fu Lei (付磊)	021-60758505
119	Hengtai Securities Co., Ltd Changsha Jinxing Road Securities Branch(恒泰證券股份有限公司長沙金星路證券營業部)	Room 1806, 18/F, Office Building, Jiaxing International Grand Hotel, No. 67 Xianjiahu West Road, Yuelu District, Changsha, Hunan(湖南省長沙市岳麓區鹹嘉湖西路67號佳興國際大酒店寫字樓18樓1806房)	2016.1.29	Zhou Guanliang (周冠良)	0731-83091899
120	Hengtai Securities Co., Ltd Shanghai Jiangning Road Securities Branch(恒泰證券股份有限公司上海江甯路證券營業部)	Room 01, 10/F, No. 188 Jiangning Road, Jingan District, Shanghai(上海市靜安區江甯路188號10樓01室)	2016.2.2	Feng Jing (馮婧)	021-52182606
121	Hengtai Securities Co., Ltd Zhengzhou Nanyang Road Securities Branch(恒泰證券股份有限公司鄭州南陽路證券營業部)	Room 1 East, 1/F and 2/F, Building 24, No. 206 Nanyang Road, Jinshui District, Zhengzhou, Henan(河南省鄭州市金水區南陽路206號24號樓1-2層東1號)	2016.2.15	Shi Jin(史進)	0371-55268382
122	Hengtai Securities Co., Ltd Shenzhen Qianhai Securities Branch(恒泰證券股份有限公司深圳前海證券營業部)	Room 201, Block A, 1 Qianwan First Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen(9J, Fengye Tower, Nanshan Avenue, Nanshan District, Shenzhen)(廣東省深圳市前海深港合作區前灣一路1號A棟201室(深圳市南山區南山大道楓葉大廈9J))	2016.2.24	He Ling (何玲)	0755-86969582
123	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch(恒泰證券股份有限公司大連會展路證券營業部)	Room 2 and 3, 11/F, Building 3, No. 67 Huizhan Road, Shahekou District, Dalian, Liaoning(遼寧省大連市沙河口區會展路67號3單元11層2、3號)	2016.3.16	Lv Xuan (呂宣)	0411-82310300
124	Hengtai Securities Co., Ltd Linyi Fuqian Road Securities Branch(恒泰證券股份有限公司臨沂府前路證券營業部)	18/F, Block A, Culture Center, Fuqian Road, Liuqing Avenue, Lanshan District, Linyi, Shandong(山東省臨沂市蘭山區柳青街道府前路文化中心A座18層)	2016.3.17	Wang Jingbao (王京寶)	0539-8609006

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
125	Hengtai Securities Co., Ltd Zibo Jinjing Road Securities Branch(恒泰證券股份有限公司淄博金晶路證券營業部)	Shop 22, Yijielongfengyuan Community, Jinjing Road, Boshan District, Zibo, Shangdong(山東省淄博市博山區金晶路益傑龍鳳緣小區二十二號商鋪)	2016.3.17	Li Lei (李雷)	0533-4913277
126	Hengtai Securities Co., Ltd Xianyou 825 Street Securities Branch(恒泰證券股份有限公司仙遊八二五大街證券營業部)	3/F, Lanxihuayuan Premises, No. 45 825 Street, Licheng Avenue, Xianyou County, Putian, Fujian(福建省莆田市仙遊縣鯉城街道八二五大街45號蘭溪花園樓盤第三層)	2016.3.25	Zheng Zhangwen (鄭章文)	0594-8097766
127	Hengtai Securities Co., Ltd Xi'an Qujiangchi North Road Securities Branch(恒泰證券股份有限公司西安曲江池北路證券營業部)	Room 20102, 1/F, Unit 2, Building 10, Qujiang Residence Heyuan, Qujiangchi North Road, Qujiang New District, Xi'an, Shanxi(陝西省西安曲江新區曲江池北路曲江公館和園10幢2單元1層20102號)	2016.3.29	Wang Hao (王浩)	029-89132956
128	Hengtai Securities Co., Ltd Dongguan Humen Town Humen Blvd Securities Branch(恒泰證券股份有限公司東莞虎門鎮虎門大道證券營業部)	Room 28, 1/F, Zhonglian Building, Humen Blvd, Humen Town, Dongguan, Guangdong(廣東省東莞市虎門鎮虎門大道中聯大廈一樓28號)	2016.4.6	Hu Jiao (胡姣)	0769-85184044
129	Hengtai Securities Co., Ltd Shenzhen Xianglin Road Securities Branch(恒泰證券股份有限公司深圳香林路證券營業部)	11MLN, Block A, Haoming Fortune Plaza, No. 7002 Shennan Blvd, Xiangmihu Avenue, Futian District, Shenzhen, Guangdong(廣東省深圳市福田區香蜜湖街道深南大道7002浩銘財富廣場A座11MLN)	2016.4.6	Wu Gang (吳剛)	0755-83980166
130	Hengtai Securities Co., Ltd Wenzhou Haichuan Road Securities Branch(恒泰證券股份有限公司溫州海川路證券營業部)	No. 22 Haichuan Road, Haicheng Avenue, Longwan District, Wenzhou, Zhejiang(浙江省溫州市龍灣區海城街道海川路22號)	2016.4.8	Feng Xiao (馮笑)	0577-85228658
131	Hengtai Securities Co., Ltd Shenzhen Gaoxinnan No. 1 Road Securities Branch(恒泰證券股份有限公司深圳高新南一道證券營業部)	Room 104, Block A, Skyworth Building, No. 8 Gaoxinnan No. 1 Road, Yuehai Avenue, Nanshan District, Shenzhen, Guangdong(廣東省深圳市南山區粵海街道高新南一道008號創維大廈A座104室)	2016.4.12	Lu Yu (路宇)	0755-26911575
132	Hengtai Securities Co., Ltd Guangzhou Tianhe North Road Securities Branch(恒泰證券股份有限公司廣州天河北路證券營業部)	Room 1505, Office Tower, CITIC Plaza, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong(廣東省廣州市天河區天河北路233號中信廣場辦公大樓1505室)	2016.4.13	Liu Haitao (劉海濤)	020-38909661

## Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No.
133	Hengtai Securities Co., Ltd Fuzhou North Ring Middle Road Securities Branch(恒泰證券股份有限公司福州北環中路證券營業部)	Room 702 and 704, Unit 1, Fuyuan Garden, No. 150 North Ring Middle Road, Gulou District, Fuzhou, Fujian(福建省福州市鼓樓區北環中路150號福苑花園1號樓702、704室)	2016.4.14	Zhou Xin (周頌)	0591-83300507
134	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch(恒泰證券股份有限公司北京建材城西路證券營業部)	Room 907, Unit 2, 9/F, Building 2, No. 87 Courtyard, Jiancaicheng West Road, Huilongguan Town, Chanping District, Beijing(北京市昌平區回龍觀鎮建材城西路87號院2號樓9層2單元907)	2016.4.15	Liu Wanru (劉婉茹)	010-82916166-805
135	Hengtai Securities Co., Ltd Beijing Qingnian Road Securities Branch(恒泰證券股份有限公司北京青年路證券營業部)	Room 31804, 18/F, Building 3, No. 7 Courtyard, Qingnian Road, Chaoyang District, Beijing(北京市朝陽區青年路7號院3號樓18層31804房)	2016.4.22	Zhang Weiqing (張偉清)	010-87141707
136	Hengtai Securities Co., Ltd Shenzhen Longxiang Blvd Securities Branch(恒泰證券股份有限公司深圳龍翔大道證券營業部)	Room 1308, Vanke Tower, Longxiang Blvd, Longcheng Avenue, Longgang District, Shenzhen, Guangdong(廣東省深圳龍崗區龍城街道龍翔大道萬科大廈1308)	2016.4.25	Zhu Ming (朱明)	0755-88312899

# Independent Auditor's Report



## TO THE SHAREHOLDERS OF HENGTOU SECURITIES

*(a joint stock company incorporated in the People's Republic of China with limited liabilities under the Chinese corporate name "恒泰证券股份有限公司" and carrying on business in Hong Kong as "恒投證券" (in Chinese) and "HENGTOU SECURITIES" (in English))*

## OPINION

We have audited the consolidated financial statements of Hengtou Securities and its subsidiaries (the "Group") set out on pages 195 to 320, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, 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") issued by the International Accounting Standards Board (the "IASB") 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 Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). 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 HKICPA's 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.

# Independent Auditor's Report (Continued)

## 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 year. 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. The key audit matters we identified are:

1. Consolidation of assets management schemes;
2. Fair value measurements; and
3. Information technology ("IT") system and control.

### **Key Audit Matter**

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### **How our audit addressed the Key Audit Matter**

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#### Consolidation of assets management schemes

Refer to Note 53 to the consolidated financial statements

The Group has investments in a number of assets management schemes where it acts as manager (the "Schemes").

The Group will generally have power over the relevant activities of the Schemes under the authority delegated to it through the management agreements and will be exposed to variability of returns through its remuneration, including management and performance fees, and its investments in the Schemes.

In order to determine whether the Group has control over the Schemes, IFRS 10 "Consolidated Financial Statements" ("IFRS 10") requires that management assess whether the Group has the ability to use its power to affect its returns from its involvement with the Schemes ("Linkage"). In making this assessment, management mainly focuses on two key indicators of Linkage: the strength of any kick-out rights held by other parties in the Schemes and the Group's aggregate economic interests in the Schemes (including both its remuneration and investments). The assessment involves significant management estimation and judgement in evaluating whether the combination of kick-out rights and aggregate economic interests result in control of the Schemes or not.

Our procedures in relation to consolidation of the Schemes included:

- We assessed each arrangement against the relevant requirements in IFRS 10 to determine whether management's treatment in the consolidated financial statements was appropriate;
- For significant arrangements, we reviewed the key contractual provisions of the relevant legal documents including the management agreements; and
- For significant arrangements, we checked the data adopted and the accuracy of the calculations made by management in assessing the variability associated with the Group's aggregate economic interests relative to the total variability of returns of the Schemes.

# Independent Auditor's Report (Continued)

## KEY AUDIT MATTERS (Continued)

### **Key Audit Matter**

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#### Fair value measurements

Refer to Note 58 to the consolidated financial statements

At 31 December 2016, the Group's available-for-sale financial assets and financial assets at fair value through profit or loss categorised as level 3 amounted to RMB1,087 million. Determination of their fair values involves significant management estimation, particularly the selection of unobservable inputs. As the available-for-sale financial assets and financial assets at fair value through profit or loss are measured at fair value at each reporting date, these fair value measurements have significant impact to the financial performance and position of the Group.

### **How our audit addressed the Key Audit Matter**

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Our procedures in relation to fair value measurements included:

- Assessing whether the valuation methodologies adopted by management were appropriate;
- Testing the evidence supporting the unobservable inputs utilised in the level 3 fair value measurements; and
- Evaluating the adequacy of the level 3 fair value measurement disclosures in the consolidated financial statements.

### **Key Audit Matter**

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#### IT system and control

The Group is highly dependent on the IT system to handle a significant number of transactions for its brokerage business on a daily basis. The adequacy and effective operation of the controls over the IT system is critical to the integrity of the Group's financial reporting process.

### **How our audit addressed the Key Audit Matter**

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Our procedures in relation to IT system and control included:

- Meeting with the person responsible for the Group's IT matters and reviewing relevant documents to understand the general IT control environment, in particular controls over the system development, management of system change, system maintenance and data security;
- Testing the general IT controls to ensure that key control procedures were operating effectively;
- Understanding the design and operation of controls over IT applications related to the trading and margin financing systems; and
- Testing the IT controls over the trading and margin financing systems to evaluate the effectiveness of these controls and the integrity of the data generated by the trading and margin financing systems.

## Independent Auditor's Report (Continued)

### **OTHER INFORMATION AND AUDITOR'S REPORT THEREON**

The directors are responsible for the Other Information. The Other Information comprises all the information in annual report of Hengtou Securities other than 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 and will 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 identified above 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 the Other Information, we are required to report that fact. We have nothing to report in this regard.

### **RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 ability of the Group 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.

The Audit Committee assists the directors in discharging their responsibilities 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. We report our opinion solely to you, as a body, 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 HKSAAs 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 HKSAAs, 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.

## Independent Auditor's Report (Continued)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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.
- 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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 this independent auditor's report is Liu Eugene.

#### **RSM Hong Kong**

*Certified Public Accountants*

Hong Kong

24 March 2017

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
<b>Revenue</b>			
Fees and commission income	6	2,281,186	3,244,923
Interest income	7	819,524	918,789
Net investment income	8	420,528	1,440,526
<b>Total revenue</b>		<b>3,521,238</b>	5,604,238
Other income and gains	9	19,917	71,952
<b>Total revenue and other income</b>		<b>3,541,155</b>	5,676,190
<b>Operating expenses</b>			
Fees and commission expenses	10	(165,709)	(300,496)
Interest expenses	11	(691,424)	(754,749)
Staff costs	12	(1,150,944)	(1,384,204)
Depreciation and amortisation	13	(81,324)	(63,738)
Business tax and surcharges		(73,402)	(277,271)
Other operating expenses	14	(728,470)	(686,278)
Impairment losses	15	(6,182)	(26,650)
<b>Total operating expenses</b>		<b>(2,897,455)</b>	(3,493,386)
<b>Operating profit</b>		<b>643,700</b>	2,182,804
Share of profits less losses of associates		(1,123)	12,466
<b>Profit before tax</b>		<b>642,577</b>	2,195,270
Income tax expense	16	(120,425)	(483,824)
<b>Profit for the year</b>		<b>522,152</b>	1,711,446
<b>Attributable to:</b>			
Ordinary shareholders of the Company		454,723	1,700,772
Non-controlling interests		67,429	10,674
		<b>522,152</b>	1,711,446
<b>Earnings per share</b>			
Basic and diluted	20	<b>RMB0.14</b>	RMB0.72

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	<b>2016</b>	2015
<b>Profit for the year</b>		<b>522,152</b>	1,711,446
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Available-for-sale financial assets:			
Net movement in the investment revaluation reserve		<b>32,128</b>	(199,462)
Share of other comprehensive income of associates		–	(567)
<b>Other comprehensive income for the year, net of tax</b>	17	<b>32,128</b>	(200,029)
<b>Total comprehensive income for the year</b>		<b>554,280</b>	1,511,417
<b>Attributable to:</b>			
Ordinary shareholders of the Company		<b>487,749</b>	1,499,528
Non-controlling interests		<b>66,531</b>	11,889
		<b>554,280</b>	1,511,417

# Consolidated Statement of Financial Position

At 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
<b>Non-current assets</b>			
Property and equipment	22	510,056	445,455
Investment properties	23	19,114	19,941
Goodwill	24	43,739	43,739
Intangible assets	25	99,717	87,838
Interests in associates	27	7,958	10,000
Available-for-sale financial assets	28	2,398,865	2,187,322
Financial assets held under resale agreements	29	614,910	119,400
Refundable deposits	30	466,710	875,415
Deferred tax assets	31	90,192	103,819
Other non-current assets	32	186,012	290,886
<b>Total non-current assets</b>		<b>4,437,273</b>	4,183,815
<b>Current assets</b>			
Margin account receivables	33	5,145,143	6,217,332
Other current assets	34	697,760	639,762
Available-for-sale financial assets	28	1,366,097	557,186
Financial assets held under resale agreements	29	915,323	164,215
Financial assets at fair value through profit or loss	35	8,322,935	9,871,588
Cash held on behalf of brokerage clients	36	11,947,659	13,784,064
Clearing settlement funds	37	1,109,951	868,540
Cash and bank balances	38	3,206,455	2,881,171
<b>Total current assets</b>		<b>32,711,323</b>	34,983,858
<b>Total assets</b>		<b>37,148,596</b>	39,167,673
<b>Current liabilities</b>			
Debt instruments issued	40	3,132,624	2,043,460
Placements from a financial institution	41	900,000	565,000
Account payables to brokerage clients	42	12,201,337	13,977,558
Employee benefit payables	43	515,352	749,435
Other current liabilities	44	1,695,912	2,487,577
Current tax liabilities		124,548	210,457
Financial assets sold under repurchase agreements	45	4,993,186	6,732,913
Financial liabilities at fair value through profit or loss	46	-	22,276
<b>Total current liabilities</b>		<b>23,562,959</b>	26,788,676
<b>Net current assets</b>		<b>9,148,364</b>	8,195,182
<b>Total assets less current liabilities</b>		<b>13,585,637</b>	12,378,997

## Consolidated Statement of Financial Position (Continued)

At 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
<b>Non-current liabilities</b>			
Debt instruments issued	40	<b>3,040,000</b>	2,629,093
Financial assets sold under repurchase agreements	45	<b>600,000</b>	–
Deferred revenue		<b>8,090</b>	2,472
Deferred tax liabilities	31	<b>1,342</b>	14,400
<b>Total non-current liabilities</b>		<b>3,649,432</b>	2,645,965
<b>NET ASSETS</b>			
		<b>9,936,205</b>	9,733,032
<b>Equity</b>			
Share capital	47(a)	<b>2,604,567</b>	2,604,567
Share premium	47(b)	<b>1,665,236</b>	1,661,236
Perpetual capital securities	48	<b>1,500,000</b>	1,500,000
Reserves	49	<b>3,891,157</b>	3,765,865
<b>Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities</b>		<b>9,660,960</b>	9,531,668
<b>Non-controlling interests</b>		<b>275,245</b>	201,364
<b>TOTAL EQUITY</b>		<b>9,936,205</b>	9,733,032

Approved by the Board of Directors on 24 March 2017 and are signed on its behalf by:

**Pang Jiemin**

*Chairman of Board of Directors*

**Wu Yigang**

*Vice Chairman of Board of Directors*

**Yang Shufei**

*Chief Financial Officer*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities											
	Share capital Note 47(a)	Share premium Note 47(b)	Perpetual capital securities Note 48	Surplus reserve Note 49(a)	General risk reserve Note 49(b)	Transaction risk reserve Note 49(c)	Investment revaluation reserve Note 49(d)	Share of other comprehensive income of associates	Retained profits	Total	Non-controlling interests	Total equity
<b>At 1 January 2015</b>	2,194,707	813,953	-	243,383	345,687	333,481	255,001	567	1,088,218	5,274,997	-	5,274,997
Total comprehensive income for the year	-	-	-	-	-	-	(200,677)	(567)	1,700,772	1,499,528	11,889	1,511,417
Issuance of H shares	409,860	850,637	-	-	-	-	-	-	-	1,260,497	-	1,260,497
Issuance of perpetual capital securities	-	-	1,500,000	-	-	-	-	-	-	1,500,000	-	1,500,000
Business combination	-	-	-	-	-	-	-	-	-	-	189,475	189,475
Appropriation to surplus reserve	-	-	-	182,429	-	-	-	-	(182,429)	-	-	-
Appropriation to general risk reserve	-	-	-	-	191,339	-	-	-	(191,339)	-	-	-
Appropriation to transaction risk reserve	-	-	-	-	-	184,772	-	-	(184,772)	-	-	-
Others	-	(3,354)	-	-	-	-	-	-	-	(3,354)	-	(3,354)
Changes in equity for the year	409,860	847,283	1,500,000	182,429	191,339	184,772	(200,677)	(567)	1,142,232	4,256,671	201,364	4,458,035
<b>At 31 December 2015</b>	<b>2,604,567</b>	<b>1,661,236</b>	<b>1,500,000</b>	<b>425,812</b>	<b>537,026</b>	<b>518,253</b>	<b>54,324</b>	<b>-</b>	<b>2,230,450</b>	<b>9,531,668</b>	<b>201,364</b>	<b>9,733,032</b>
<b>At 1 January 2016</b>	<b>2,604,567</b>	<b>1,661,236</b>	<b>1,500,000</b>	<b>425,812</b>	<b>537,026</b>	<b>518,253</b>	<b>54,324</b>	<b>-</b>	<b>2,230,450</b>	<b>9,531,668</b>	<b>201,364</b>	<b>9,733,032</b>
Total comprehensive income for the year	-	-	-	-	-	-	33,026	-	454,723	487,749	66,531	554,280
Dividends paid (Note 21)	-	-	-	-	-	-	-	-	(362,457)	(362,457)	-	(362,457)
Capital contribution by non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	7,350	7,350
Appropriation to surplus reserve	-	-	-	23,388	-	-	-	-	(23,388)	-	-	-
Appropriation to general risk reserve	-	-	-	-	61,571	-	-	-	(61,571)	-	-	-
Appropriation to transaction risk reserve	-	-	-	-	-	29,038	-	-	(29,038)	-	-	-
Others	-	4,000	-	-	-	-	-	-	-	4,000	-	4,000
Changes in equity for the year	-	4,000	-	23,388	61,571	29,038	33,026	-	(21,731)	129,292	73,881	203,173
<b>At 31 December 2016</b>	<b>2,604,567</b>	<b>1,665,236</b>	<b>1,500,000</b>	<b>449,200</b>	<b>598,597</b>	<b>547,291</b>	<b>87,350</b>	<b>-</b>	<b>2,208,719</b>	<b>9,660,960</b>	<b>275,245</b>	<b>9,936,205</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	<b>642,577</b>	2,195,270
Adjustments for:		
Interest expenses	<b>691,424</b>	754,749
Share of profits less losses of associates	<b>1,123</b>	(12,466)
Depreciation and amortisation	<b>81,324</b>	63,738
Impairment losses	<b>6,182</b>	26,650
(Gains)/losses on disposal of property and equipment and intangible assets	<b>(137)</b>	195
Foreign exchange gains	<b>(1,647)</b>	(33,919)
Net realised gains from disposal of available-for-sale financial assets	<b>(139,037)</b>	(438,614)
Dividend income and interest income from available-for-sale financial assets	<b>(13,751)</b>	(44,975)
Interest income from investments classified as receivables	<b>(28,026)</b>	–
Change in fair value of financial instruments at fair value through profit or loss	<b>228,521</b>	(3,680)
Expensed transaction cost for issuance of H shares	–	15,822
Operating profit before working capital changes	<b>1,468,553</b>	2,522,770
Decrease/(increase) in refundable deposits	<b>408,705</b>	(556,521)
Decrease/(increase) in receivables and prepayments	<b>183,905</b>	(327,134)
Decrease/(increase) in margin account receivables	<b>1,077,864</b>	(1,132,292)
(Increase)/decrease in financial assets held under resale agreements	<b>(729,022)</b>	236,339
Decrease/(increase) in financial assets at fair value through profit or loss	<b>1,344,291</b>	(6,060,630)
Decrease/(increase) in cash held on behalf of brokerage clients	<b>1,836,405</b>	(6,345,416)
Increase in restricted bank deposits	<b>(33,150)</b>	(11,468)
Increase/(decrease) in placements from other financial institutions	<b>335,000</b>	(1,070,000)
(Decrease)/increase in account payables to brokerage clients	<b>(1,776,221)</b>	6,422,101
(Decrease)/increase in employee benefit payables	<b>(234,083)</b>	451,412
(Decrease)/increase in other payables and accruals	<b>(726,568)</b>	1,198,115
(Decrease)/increase in financial assets sold under repurchase agreements	<b>(1,139,727)</b>	3,753,363
Decrease in financial liabilities at fair value through profit or loss	<b>(22,136)</b>	(31,939)
Cash generated from/(used in) operations	<b>1,993,816</b>	(951,300)
Income tax paid	<b>(215,639)</b>	(459,241)
Interest paid for operating activities	<b>(393,571)</b>	(531,324)
Net cash generated from/(used in) operating activities	<b>1,384,606</b>	(1,941,865)

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Notes</i>	<b>2016</b>	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment and intangible assets		<b>521</b>	8,521
Dividend income and interest income received from available-for-sale financial assets		<b>17,881</b>	64,717
Proceeds from disposal of available-for-sale financial assets		<b>779,742</b>	1,956,550
Purchases of property and equipment, intangible assets and other non-current assets		<b>(157,918)</b>	(194,517)
Purchases of an associate		<b>(98)</b>	(10,000)
Purchases of available-for-sale financial assets	59(a)	<b>(1,774,831)</b>	(2,719,718)
Refund of purchase of an associate		<b>98</b>	–
Other net cash flows from investing activities		<b>(56,975)</b>	(151,862)
Net cash used in investing activities		<b>(1,191,580)</b>	(1,046,309)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contribution by non-controlling shareholders of a subsidiary		<b>7,350</b>	–
Proceeds from issuance of H shares		–	1,260,497
Proceeds from issuance of perpetual capital securities		–	1,500,000
Proceeds from issuance of debt instruments		<b>4,340,000</b>	5,395,250
Repayment of debt instruments		<b>(2,795,250)</b>	(3,500,000)
Interest paid for financing activities		<b>(286,995)</b>	(132,964)
Dividends paid		<b>(362,457)</b>	–
Expenses transaction cost paid on issuance of H shares		–	(14,463)
Other net cash flows from financing activities		<b>(127,546)</b>	–
Net cash generated from financing activities		<b>775,102</b>	4,508,320
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>968,128</b>	1,520,146
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>3,569,426</b>	1,848,149
Effect of foreign exchange rate changes		<b>1,647</b>	33,919
Cash and cash equivalents of subsidiary acquired under business combination on acquisition date		–	167,212
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	39	<b>4,539,201</b>	3,569,426

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 1. GENERAL INFORMATION

The Company was set up in Inner Mongolia Autonomous Region by Inner Mongolia Branch of People's Bank of China ("PBOC") in 1988. The Company has restructured into a joint stock company with limited liability pursuant to the approvals by the China Securities Regulatory Commission ("CSRC") in 2008. The Company has obtained securities institution license No. Z20815000 and business licence No. 150000000001019. The registered address of the Company is 14-18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region. As at 31 December 2016, the share capital of the Company is RMB2,604,567,412.

The Group principally engage in securities underwriting and sponsorship, agency sale of securities and financial product, securities and futures brokerage, assets management, investment consultancy, margin financing and securities lending, fund establishing and management, and other business as approved by the CSRC.

The Company listed its H shares on the Main Board of the Stock Exchange of Hong Kong Limited on 15 October 2015.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued a number of new and revised IFRSs. The Group has adopted all applicable new and revised IFRSs in issue which are relevant to the Group, except for any other new standards or interpretations that are not yet effective for the year ended 31 December 2016. The revised and new accounting standards and interpretations issued but not yet effective and not yet adopted by the Group for the year ended 31 December 2016 are set out in Note 60.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (2) Basis of preparation

These financial statements have been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: non-derivative financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets. The methods used to measure fair value are discussed further in Note 2(9).

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates.

### (3) Functional and presentation currency

The financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousands, which is the functional currency of the Group and the Company, except when otherwise indicated.

### (4) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgments that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 3.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Basis of consolidation

#### (i) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

#### (ii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Basis of consolidation (Continued)

#### (ii) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(9)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(5)(iii)).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Basis of consolidation (Continued)

#### (ii) Subsidiaries and non-controlling interests (Continued)

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(15)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

#### (iii) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(6) and 2(15)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Basis of consolidation (Continued)

#### (iii) Associates and joint ventures (Continued)

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(9)).

In the Company's statement of financial position, investments in associates and joint ventures are accounted for under the equity method, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (6) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(15)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (7) Foreign currency

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the exchange rates that approximate the spot exchange rate ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currency are translated into RMB at the foreign exchange rate ruling at the end of the reporting date and translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RMB using the foreign exchange rates ruling at the dates the fair value was measured. The exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in other comprehensive income.

Non-monetary items measured in terms of historical cost denominated in a foreign currency are translated using the exchange rate ruling at the transaction dates.

### (8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and which are subject to insignificant risk of change in value having been within three months of maturity at acquisition.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments

- (i) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

*Financial assets and financial liabilities at fair value through profit or loss (including financial assets and financial liabilities held for trading)*

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

- (i) Recognition and measurement of financial assets and financial liabilities (Continued)

*Financial assets and financial liabilities at fair value through profit or loss (including financial assets and financial liabilities held for trading) (Continued)*

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

- (i) Recognition and measurement of financial assets and financial liabilities (Continued)

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 2(9)(iii)).

#### *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities.

The investment in equity securities that do not have quoted price in active market and whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method is recognised in profit or loss. Foreign exchange gains or losses arising from change in the amortised cost of debts instrument are also recognised in profit or loss (see Note 2(7)). Impairment losses are recognised in profit or loss (see Note 2(9)(iii)).

Other fair value changes, other than impairment losses (see Note 2(9)(iii)), are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

- (i) Recognition and measurement of financial assets and financial liabilities (Continued)

#### *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

- (ii) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the year. Where other pricing models are used, inputs are based on market data at the end of the year.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

#### (ii) Fair value measurement (Continued)

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

#### (iii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

- significant financial difficulty of the borrower or issuer;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

#### (iii) Impairment of financial assets (Continued)

- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

#### *Loans and receivables*

For account receivables that are assessed not to be impaired individually, the Group assess impairment losses on a collective basis. Loans and receivables are grouped for similar aging characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

#### (iii) Impairment of financial assets (Continued)

##### *Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss.

Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment measured at fair value, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

#### (iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

#### (v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group currently has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Financial instruments (Continued)

#### (vi) Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

#### (vii) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (10) Margin financing and securities lending

Margin financing and securities lending refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The Group recognises margin financing receivables as loans and receivables, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using effective interest rate method.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

### (11) Financial assets held under resale agreements and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statements of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statements of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (12) Property and equipment and construction in progress

#### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (see Note 2(15)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (12) Property and equipment and construction in progress (Continued)

(i) Recognition and measurement (Continued)

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the transfers do not change the carrying amount of property transferred and do not change the cost of that property for measurement or disclosure purpose.

(iii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iv) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (12) Property and equipment and construction in progress (Continued)

#### (iv) Depreciation (Continued)

Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

<b>Types of assets</b>	<b>Estimated useful lives</b>	<b>Estimated residual values</b>	<b>Depreciation rates</b>
Buildings	35 years	3%	2.77%
Motor vehicles	5 years	0%	20%
Electronic equipment	4 years	0%	25%
Furniture and fixtures	5 years	0%	20%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (13) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of items. Subsequent to initial recognition, the investment property is accounted for using the cost model and stated in the financial statement at cost less accumulated depreciation, and impairment losses (see Note 2(15)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale.

<u>Types of assets</u>	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Investment property	35 years	3%	2.77%

#### (14) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment loss (see Note 2(15)). For an intangible asset with finite useful life, its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

<u>Types of assets</u>	<u>Estimated useful lives</u>
Trading rights	5 years
Software	5 years

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (14) Intangible assets (Continued)

Both the period and method of amortisation are reviewed annually.

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. As at 31 December 2016, the Group does not have any intangible assets with indefinite useful lives.

### (15) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each year to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment
- investment property
- intangible assets
- equity investment in subsidiaries, associates and joint ventures
- goodwill
- leasehold improvements and long-term deferred expenses

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (15) Impairment of non-financial assets (Continued)

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. 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 impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (i.e. a cash-generating unit, or CGU). Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (16) Employee benefits

#### (i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### (ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), the Group participated in the social pension schemes for employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amount stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (16) Employee benefits (Continued)

#### (iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

### (17) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income, in which case the relevant amounts of tax are recognised directly in equity or in other comprehensive income.

#### (i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (17) Income tax (Continued)

#### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the year, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (17) Income tax (Continued)

#### (ii) Deferred tax (Continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (18) Operating leases

#### (i) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (18) Operating leases (Continued)

- (ii) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(12)(iv). Impairment losses are recognised in accordance with the accounting policies described in Note 2(15). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

### (19) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (20) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

### (21) 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 from brokerage business

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

(ii) Underwriting and sponsor fees

Underwriting and sponsor fees are recognised when the obligation of underwriting or sponsoring is completed, that is, the economic interests may flow into the Group and the relevant revenue and costs may be calculated reliably.

(iii) Advisory fees

Revenue arising from advisory services is recognised on completion of such services.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (21) Revenue recognition (Continued)

(iv) Assets management fees

Assets management fees are recognised when the Group is entitled to receive the income under the assets management agreement.

(v) Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

(vi) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the exdividend date for equity investments.

(vii) Other income

Other income is recognised on an accrual basis.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (22) Expenses recognition

(i) Commission expenses

Commission expenses relate mainly to transactions, which are recognised as expenses when the services are received.

(ii) Interest expenses

Interest expenses are recognised based on the principal outstanding and at the effective interest rate applicable.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

(iv) Other expenses

Other expenses are recognised on an accrual basis.

### (23) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the year, are not recognised as a liability at the end of the year but disclosed in the notes to the financial statements separately.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (24) Government grants

Government grants related to purchase of asset are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

### (25) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial statement regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### (1) Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, we assess periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

Detail of impairment of available-for-sale financial assets is stated in Note 15 to the consolidated financial statements.

### (2) Fair value of financial instruments

As indicated in Note 2(9)(i), financial instruments at fair value through profit or loss and available-for-sale investments are measured at fair value at the end of the year and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2(9)(ii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Detail of fair value measurements is stated in Note 58 to the consolidated financial statements.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (3) Classification of financial asset and liability

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the definition of trading assets and liabilities set out in Note 2(9)(i).
- In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in Note 2(9)(i).

The classification of financial assets as trading or designating at fair value through profit or loss is stated in Note 35 to the consolidated financial statements.

### (4) Impairment of receivables

Receivables that are measured at amortised cost are reviewed at each end of year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor and other factors. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed. Details of impairment of receivable are stated in Notes 29, 33 and 34(b) to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (5) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption. During the year, no impairment (2015: Nil) was recognised for non-financial assets.

#### (6) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. During the year, approximately RMB120,425 thousand (2015: RMB483,824 thousand) of income tax was charged to profit or loss based on the estimated profit from operations.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (7) Depreciation and amortisation

Property and equipment, investment property, intangible assets, leasehold improvements and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the year. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised. The depreciation and amortisation charged for the year were stated in Note 13 to the consolidated financial statements.

#### (8) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For assets management schemes where the Group involves as the manager, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the assets management schemes that is of such significance indicating that the Group is a principal. The assets management schemes shall be consolidated if the Group acts in the role of principal.

Detail of interest in assets management schemes is stated in Note 53 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 4. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2016	2015
<b>Non-current assets</b>		
Property and equipment	446,290	378,092
Investment properties	12,662	13,227
Intangible assets	89,102	76,794
Investments in subsidiaries	1,996,583	996,583
Available-for-sale financial assets	1,707,093	1,652,516
Financial assets held under resale agreements	614,910	119,400
Refundable deposits	153,875	699,100
Deferred tax assets	71,841	76,813
Other non-current assets	131,862	282,502
<b>Total non-current assets</b>	<b>5,224,218</b>	4,295,027
<b>Current assets</b>		
Margin account receivables	5,145,143	6,217,332
Other current assets	425,083	1,007,207
Available-for-sale financial assets	1,000,925	598,730
Financial assets held under resale agreements	346,879	119,015
Financial assets at fair value through profit or loss	6,732,251	6,943,816
Cash held on behalf of brokerage clients	11,277,720	13,409,129
Clearing settlement funds	1,063,629	799,325
Cash and bank balances	2,035,354	1,841,985
<b>Total current assets</b>	<b>28,026,984</b>	30,936,539
<b>Total assets</b>	<b>33,251,202</b>	35,231,566

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 4. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	As at 31 December	
	2016	2015
<b>Current liabilities</b>		
Debt instruments issued	<b>3,132,624</b>	2,043,460
Placements from a financial institution	<b>900,000</b>	565,000
Account payables to brokerage clients	<b>11,277,911</b>	13,433,936
Employee benefit payables	<b>351,878</b>	625,503
Other current liabilities	<b>191,103</b>	345,677
Current tax liabilities	<b>78,056</b>	189,099
Financial assets sold under repurchase agreements	<b>4,473,886</b>	5,907,014
Financial liabilities at fair value through profit or loss	–	22,276
<b>Total current liabilities</b>	<b>20,405,458</b>	23,131,965
<b>Net current assets</b>	<b>7,621,526</b>	7,804,574
<b>Total assets less current liabilities</b>	<b>12,845,744</b>	12,099,601
<b>Non-current liabilities</b>		
Debt instruments issued	<b>3,000,000</b>	2,629,093
Financial assets sold under repurchase agreements	<b>500,000</b>	–
Deferred revenue	<b>8,090</b>	1,557
<b>Total non-current liabilities</b>	<b>3,508,090</b>	2,630,650
<b>Net assets</b>	<b>9,337,654</b>	9,468,951

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 4. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	As at 31 December	
	2016	2015
<b>Equity</b>		
Share capital	<b>2,604,567</b>	2,604,567
Share premium	<b>1,665,236</b>	1,661,236
Perpetual capital securities	<b>1,500,000</b>	1,500,000
Reserves	<b>3,567,851</b>	3,703,148
<b>Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities</b>	<b>9,337,654</b>	9,468,951

Approved by the Board of Directors on 24 March 2017 and is signed on its behalf by:

**Pang Jiemin**  
*Chairman of Board of Directors*

**Wu Yigang**  
*Vice Chairman of Board of Directors*

**Yang Shufei**  
*Chief Financial Officer*

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 5. TAXATION

The Group's main applicable taxes and tax rates are as follows:

<u>Tax type</u>	<u>Tax basis</u>	<u>Tax rate</u>
Corporate income tax	Based on taxable profits	25%
Business tax	Based on taxable revenue	5%
Value added tax ("VAT")	Based on taxable revenue	6% or 17%
City maintenance and construction tax	Based on business tax and VAT	5%–7%
Education surcharge and local education surcharge	Based on business tax and VAT	2%–3%

### 6. FEES AND COMMISSION INCOME

	<u>2016</u>	<u>2015</u>
Fees and commission income arising from:		
– Securities brokerage business	<b>1,042,921</b>	2,329,246
– Assets management business	<b>702,721</b>	553,022
– Underwriting and sponsoring business	<b>314,417</b>	209,757
– Financial advisory business	<b>112,975</b>	81,892
– Futures brokerage business	<b>67,224</b>	58,425
– Investment advisory business	<b>28,935</b>	12,581
– Custody business	<b>11,993</b>	–
Total	<b><u>2,281,186</u></b>	<u>3,244,923</u>

### 7. INTEREST INCOME

	<u>2016</u>	<u>2015</u>
Interest income arising from:		
– Margin financing and securities lending	<b>426,591</b>	548,400
– Deposits in financial institutions	<b>336,567</b>	329,202
– Financial assets held under resale agreements	<b>47,742</b>	40,133
– Others	<b>8,624</b>	1,054
Total	<b><u>819,524</u></b>	<u>918,789</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 8. NET INVESTMENT INCOME

	2016	2015
Net realised gains from disposal of available-for-sale financial assets	<b>139,037</b>	438,614
Dividend income and interest income from available-for-sale financial assets	<b>13,751</b>	44,975
Net gains from financial instruments at fair value through profit or loss	<b>218,024</b>	960,678
Net gains/(losses) from derivative financial instruments	<b>20,916</b>	(3,741)
Interest income from investments classified as receivables	<b>28,026</b>	–
Others	<b>774</b>	–
Total	<b>420,528</b>	1,440,526

### 9. OTHER INCOME AND GAINS

	2016	2015
Foreign exchange gains	<b>1,647</b>	33,919
Rental income	<b>3,102</b>	4,641
Government grants	<b>9,784</b>	1,764
Gains/(losses) on disposal of property and equipment and intangible assets	<b>137</b>	(195)
Others	<b>5,247</b>	31,823
Total	<b>19,917</b>	71,952

Government grants were received from several local government authorities for supporting the Group's operation, of which the entitlement was unconditional.

### 10. FEES AND COMMISSION EXPENSES

	2016	2015
Expenses arising from:		
– Securities brokerage business	<b>159,221</b>	297,664
– Underwriting and sponsoring business	<b>6,238</b>	2,832
– Investment advisory business	<b>250</b>	–
Total	<b>165,709</b>	300,496

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 11. INTEREST EXPENSES

	2016	2015
Interest expenses arising from:		
– Account payables to brokerage clients	43,369	47,772
– Placements from other financial institutions	18,594	91,690
– Financial assets sold under repurchase agreements	241,437	258,829
– Debt instruments issued	305,875	223,112
– Other investors under the assets management schemes	79,883	133,346
– Limited partners under limited partnerships	2,266	–
Total	691,424	754,749

### 12. STAFF COSTS

	2016	2015
Short-term benefits	1,102,318	1,350,606
Defined contribution plan	48,626	33,598
Total	1,150,944	1,384,204

The Group is required to participate in pension schemes in the PRC whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the contributions described above.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 13. DEPRECIATION AND AMORTISATION

	2016	2015
Depreciation of property and equipment	<b>31,990</b>	26,858
Depreciation of investment properties	<b>827</b>	827
Amortisation of intangible assets	<b>27,526</b>	18,254
Amortisation of leasehold improvements and long-term prepaid expenses	<b>20,981</b>	17,799
Total	<b>81,324</b>	63,738

### 14. OTHER OPERATING EXPENSES

	2016	2015
Electronic equipment operating expenses	<b>111,537</b>	142,481
Consulting fees	<b>77,080</b>	97,946
Rental expenses	<b>110,947</b>	61,581
Miscellaneous office expenses	<b>27,681</b>	57,503
Business travel expenses	<b>45,828</b>	55,679
Securities investor protection funds	<b>19,369</b>	49,109
Postal and communication expenses	<b>17,225</b>	21,133
Business entertainment expenses	<b>25,603</b>	15,655
Auditor's remuneration	<b>5,802</b>	5,515
Utilities and building management fees	<b>14,371</b>	13,105
Other commission expenses	<b>71,259</b>	34,306
Others	<b>201,768</b>	132,265
Total	<b>728,470</b>	686,278

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 15. IMPAIRMENT LOSSES

	2016	2015
(Reversal of impairment losses)/impairment losses for margin financing and securities lending	<b>(5,675)</b>	8,531
Impairment losses for available-for-sale financial assets	<b>4,000</b>	16,000
Impairment losses/(reversal of impairment losses) for financial assets held under resale agreements	<b>3,635</b>	(1,047)
Impairment losses for other current assets	<b>4,222</b>	3,166
Total	<b>6,182</b>	26,650

### 16. INCOME TAX EXPENSE

	2016	2015
Current tax	<b>129,730</b>	589,445
Deferred tax ( <i>Note 31</i> )	<b>(9,305)</b>	(105,621)
Total	<b>120,425</b>	483,824

The provision for the PRC corporate income tax is calculated based on the statutory income tax rate of 25%.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 16. INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	2016	2015
Profit before tax	<b>642,577</b>	2,195,270
Tax at the PRC statutory income tax rate of 25% (2015: 25%)	<b>160,644</b>	548,818
Tax effect of non-deductible expenses	<b>3,889</b>	4,957
Tax effect of non-taxable income	<b>(44,132)</b>	(72,463)
Others	<b>24</b>	2,512
Income tax expense	<b>120,425</b>	483,824

### 17. OTHER COMPREHENSIVE INCOME FOR THE YEAR

Components of other comprehensive income, including reclassification adjustments:

	2016	2015
Fair value gain on available-for-sale financial assets	<b>90,916</b>	172,665
Less: Transfer to profit or loss upon disposal	<b>(48,914)</b>	(438,614)
Tax effect	<b>(9,874)</b>	66,487
Subtotal	<b>32,128</b>	(199,462)
Share of other comprehensive income of associates	-	(567)
Total	<b>32,128</b>	(200,029)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 18. BENEFITS AND INTERESTS OF DIRECTORS

#### (a) Directors' and supervisors' remuneration

	2016				Total emoluments before tax
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to social pension schemes	
<b>Executive directors</b>					
Pang Jiemin	–	1,873	2,122	73	4,068
Wu Yigang	–	858	1,179	20	2,057
<b>Non-executive directors</b>					
Ju Jin <sup>1</sup>	–	–	–	–	–
Zhang Tao	50	–	–	–	50
Chen Guanglei	50	–	–	–	50
Sun Chao	50	–	–	–	50
<b>Independent non-executive directors</b>					
Zhou Jianjun	100	–	–	–	100
Peng Diyun	100	–	–	–	100
Lam Sek Kong	100	–	–	–	100
<b>Supervisors</b>					
Guo Liwen	–	738	1,179	20	1,937
Wang Hui	–	477	455	73	1,005
Pei Jingjing	30	–	–	–	30
Total	480	3,946	4,935	186	9,547

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 18. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (a) Directors' and supervisors' remuneration (Continued)

	2015				
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax
<b>Executive directors</b>					
Pang Jiemin	–	1,868	7,304	73	9,245
Wu Yigang	–	853	4,058	30	4,941
<b>Non-executive directors</b>					
Ju Jin	–	–	–	–	–
Zhang Tao	50	–	–	–	50
Chen Guanglei	50	–	–	–	50
Sun Chao	50	–	–	–	50
<b>Independent non-executive directors</b>					
Zhou Jianjun <sup>2</sup>	100	–	–	–	100
Peng Diyun	100	–	–	–	100
Lam Sek Kong <sup>3</sup>	100	–	–	–	100
Wang Fangjun <sup>4</sup>	–	–	–	–	–
<b>Supervisors</b>					
Guo Liwen	–	733	4,058	30	4,821
Wang Hui	–	470	1,260	73	1,803
Pei Jingjing	30	–	–	–	30
<b>Total</b>	<b>480</b>	<b>3,924</b>	<b>16,680</b>	<b>206</b>	<b>21,290</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 18. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (a) Directors' and supervisors' remuneration (Continued)

- <sup>1</sup> On 25 April 2016, Mr. Ju Jin ceased to be non-executive director.
- <sup>2</sup> At the Group's 3rd Extraordinary General Meeting held on 9 March 2015, Ms. Zhou Jianjun was elected to be independent non-executive director.
- <sup>3</sup> At the Group's 3rd Extraordinary General Meeting held on 9 March 2015, Dr. Lam Sek Kong was elected to be independent non-executive director.
- <sup>4</sup> On 3 April 2015, Mr. Wang Fangjun ceased to be independent non-executive director.

### (b) Directors' and supervisors' 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 or supervisor of the Company and the director's or supervisor's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 19. INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2016, excluding amounts paid or payable by way of commission of sales generated by the individuals, the five highest paid individuals during the year included one director (2015: one), whose emoluments are disclosed in Note 18. The emoluments for the rest of the five highest paid individual for the year ended 31 December 2016 are as follows:

	<b>2016</b>	2015
Salaries and allowances	<b>6,202</b>	4,029
Discretionary bonuses	<b>7,069</b>	29,623
Employer's contribution to pension schemes	<b>190</b>	201
Total	<b>13,461</b>	33,853

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 19. INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the other individuals with the highest emoluments mentioned above are within the following bands:

	2016	2015
HKD3,000,001 to HKD3,500,000	1	–
HKD4,000,001 to HKD4,500,000	3	–
HKD8,000,001 to HKD8,500,000	–	1
HKD8,500,001 to HKD9,000,000	–	1
HKD10,000,001 to HKD10,500,000	–	1
HKD14,000,001 to HKD14,500,000	–	1

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the year.

### 20. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue.

	2016	2015
<b>Earnings</b>		
Profit for the year attributable to ordinary shareholders of the Company	454,723	1,700,772
Less: Dividends for cumulative perpetual capital securities required	(102,000)	(51,978)
Total	<b>352,723</b>	1,648,794
<b>Number of shares</b>		
Weighted average number of ordinary shares used in basic earnings per share calculation	<b>2,604,567</b>	2,278,339

For the year ended 31 December 2016, there were no dilutive potential ordinary shares (2015: Nil), so the diluted earnings per share were the same as the basic earnings per share.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 21. DIVIDENDS

	2016	2015
Final dividend in respect of the financial year ended 31 December 2015 of RMB0.1 (2015: Nil) per ordinary share	<b>260,457</b>	–
Dividend paid to holders of perpetual capital securities	<b>102,000</b>	–
Total	<b>362,457</b>	–

The dividend paid during the year ended 31 December 2016 were (i) approximately RMB260,457 thousand being final dividend of RMB1 per ten shares in respect of the year ended 31 December 2015 and (ii) approximately RMB102,000 thousand being dividend calculated at 6.8% p.a. on the nominal value of perpetual capital securities.

The directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2016.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 22. PROPERTY AND EQUIPMENT

	Note	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>							
As at 1 January 2015		173,845	19,974	144,467	18,653	163,211	520,150
Acquisitions through business combination	59(b)	–	3,705	29,209	2,541	–	35,455
Additions		5,226	1,352	35,437	2,048	111,697	155,760
Transfer in/(out) during the year		55	–	7,249	2,001	(33,058)	(23,753)
Disposals		(4,933)	(746)	(18,127)	(1,171)	–	(24,977)
As at 31 December 2015		<b>174,193</b>	<b>24,285</b>	<b>198,235</b>	<b>24,072</b>	<b>241,850</b>	<b>662,635</b>
Additions		<b>5,366</b>	<b>2,382</b>	<b>22,629</b>	<b>4,217</b>	<b>79,970</b>	<b>114,564</b>
Transfer in/(out) during the year		–	–	<b>245</b>	<b>191</b>	<b>(18,025)</b>	<b>(17,589)</b>
Disposals		<b>(77)</b>	<b>(934)</b>	<b>(28,296)</b>	<b>(2,525)</b>	–	<b>(31,832)</b>
At 31 December 2016		<b>179,482</b>	<b>25,733</b>	<b>192,813</b>	<b>25,955</b>	<b>303,795</b>	<b>727,778</b>
<b>Accumulated depreciation</b>							
As at 1 January 2015		(39,405)	(17,578)	(114,775)	(12,964)	–	(184,722)
Acquisitions through business combination	59(b)	–	(2,010)	(16,121)	(2,044)	–	(20,175)
Charge for the year		(5,165)	(1,806)	(17,423)	(2,464)	–	(26,858)
Disposals		451	747	13,854	1,067	–	16,119
At 31 December 2015		<b>(44,119)</b>	<b>(20,647)</b>	<b>(134,465)</b>	<b>(16,405)</b>	–	<b>(215,636)</b>
Charge for the year		<b>(4,771)</b>	<b>(1,736)</b>	<b>(21,527)</b>	<b>(3,956)</b>	–	<b>(31,990)</b>
Disposals		<b>4</b>	<b>934</b>	<b>27,945</b>	<b>2,435</b>	–	<b>31,318</b>
At 31 December 2016		<b>(48,886)</b>	<b>(21,449)</b>	<b>(128,047)</b>	<b>(17,926)</b>	–	<b>(216,308)</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 22. PROPERTY AND EQUIPMENT (Continued)

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electric equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Impairment</b>						
As at 1 January 2015	(719)	-	(915)	(119)	-	(1,753)
Disposals	-	-	169	40	-	209
At 31 December 2015	<b>(719)</b>	-	<b>(746)</b>	<b>(79)</b>	-	<b>(1,544)</b>
Disposals	-	-	119	11	-	130
At 31 December 2016	<b>(719)</b>	-	<b>(627)</b>	<b>(68)</b>	-	<b>(1,414)</b>
<b>Carrying amount</b>						
At 31 December 2016	<b>129,877</b>	<b>4,284</b>	<b>64,139</b>	<b>7,961</b>	<b>303,795</b>	<b>510,056</b>
At 31 December 2015	129,355	3,638	63,024	7,588	241,850	445,455

The carrying amount of buildings without title deeds as at 31 December 2016 is RMB37,229 thousand (2015: RMB71,976 thousand). The Group is still in the progress of application for the outstanding title deeds for the above premises. Management of the Group expected that there would be no significant cost in obtaining the title deeds.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 23. INVESTMENT PROPERTIES

	2016	2015
<b>Cost</b>		
As at 1 January and 31 December	<b>29,664</b>	29,664
<b>Accumulated depreciation</b>		
As at 1 January	<b>(9,723)</b>	(8,896)
Charge for the year	<b>(827)</b>	(827)
As at 31 December	<b>(10,550)</b>	(9,723)
<b>Carrying amount</b>		
As at 31 December	<b>19,114</b>	19,941

The fair value of the Group's investment properties as at 31 December 2016 amounted to RMB200,194 thousand which has been arrived at adopting direct comparison approach with reference to comparable sale transactions for similar properties in the same location and condition (level 3 fair value measurement).

### 24. GOODWILL

	2016	2015
Cost	<b>43,739</b>	43,739
Less: Impairment	<b>-</b>	-
Carrying amount	<b>43,739</b>	43,739

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 24. GOODWILL (Continued)

	<i>Notes</i>	<b>2016</b>	2015
Funds management	(1)	<b>30,604</b>	30,604
Futures brokerage	(2)	<b>13,135</b>	13,135
Total		<b>43,739</b>	43,739

- (1) The Group acquired further equity interest in New China Fund Management Co., Ltd. ("New China Fund") during 2015, and the New China Fund and its subsidiary became the subsidiaries instead of the associates of the Group. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the funds management CGU.
- (2) The Group acquired the entire equity interest in Hengtai Futures Co., Ltd. ("Hengtai Futures") in 2009. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

As at 31 December 2016, the Group performed its goodwill impairment test. The recoverable amounts of the CGUs are determined based on fair value less costs of disposal using market approach by reference to market comparable transactions. This categorised as level 3 fair value measurement. No impairments were recognised for the goodwill related to futures brokerage CGU and funds management CGU since the recoverable amount was greater than their carrying amount.

For the year ended 31 December 2015, the recoverable amounts of the CGUs are determined based on value-in-use calculation. The change in valuation technique was due to the fact that there were observable transactions about the transfer of similar companies. The adoption of market approach is more appropriate in measuring the fair value of the CGU.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 25. INTANGIBLE ASSETS

	<i>Note</i>	<b>Trading rights</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
<b>Cost</b>					
As at 1 January 2015		9,589	107,937	5,289	122,815
Acquisitions through business combination	59(b)	–	16,192	–	16,192
Transfer in		–	23,753	–	23,753
Additions		–	19,809	–	19,809
Disposals		–	(211)	–	(211)
As at 31 December 2015		<b>9,589</b>	<b>167,480</b>	<b>5,289</b>	<b>182,358</b>
Transfer in		–	<b>17,406</b>	–	<b>17,406</b>
Additions		–	<b>21,981</b>	<b>18</b>	<b>21,999</b>
Disposals		–	<b>(119)</b>	–	<b>(119)</b>
As at 31 December 2016		<b>9,589</b>	<b>206,748</b>	<b>5,307</b>	<b>221,644</b>
<b>Accumulated amortisation</b>					
As at 1 January 2015		(9,289)	(54,285)	(5,289)	(68,863)
Acquisitions through business combination	59(b)	–	(7,547)	–	(7,547)
Charge for the year		–	(18,254)	–	(18,254)
Disposals		–	144	–	144
As at 31 December 2015		<b>(9,289)</b>	<b>(79,942)</b>	<b>(5,289)</b>	<b>(94,520)</b>
Charge for the year		–	<b>(27,508)</b>	<b>(18)</b>	<b>(27,526)</b>
Disposals		–	<b>119</b>	–	<b>119</b>
As at 31 December 2016		<b>(9,289)</b>	<b>(107,331)</b>	<b>(5,307)</b>	<b>(121,927)</b>
<b>Carrying amount</b>					
As at 31 December 2016		<b>300</b>	<b>99,417</b>	–	<b>99,717</b>
As at 31 December 2015		300	87,538	–	87,838

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 26. INVESTMENTS IN SUBSIDIARIES

	2016	2015
Unlisted shares, at cost	<b>1,996,583</b>	996,583

The following list contains the particulars of principal subsidiaries.

Name of company	Place of incorporation/ establishment	Issued and paid-up capital	Equity interest directly held by the Company		Principal activity	Statutory auditor
			2016	2015		
Hengtai Changcai Securities Co., Ltd. 恒泰長財證券有限責任公司 <sup>1</sup> ("Hengtai Changcai")	Changchun, PRC	200,000	<b>100%</b>	100%	Securities brokerage business	Ruihua Certified Public Accountants LLP 瑞華會計師事務所 (特殊普通合夥) ("Ruihua")
Hengtai Futures 恒泰期貨股份有限公司 <sup>1</sup>	Shanghai, PRC	125,000	<b>80%</b>	80%	Futures brokerage business	Ruihua
New China Fund 新華基金管理股份有限公司 <sup>1,2</sup>	Chongqing, PRC	217,500	<b>58.62%</b>	58.62%	Funds management	Ruihua
Hengtai Pioneer Investments Co., Ltd. 恒泰先鋒投資有限公司 <sup>1</sup> ("Hengtai Pioneer")	Beijing, PRC	100,000	<b>100%</b>	100%	Investment, advisory and business management	Ruihua
Hengtai Capital Investment Co., Ltd. 恒泰資本投資有限責任公司 <sup>1,3</sup> ("Hengtai Capital")	Shenzhen, PRC	1,200,000	<b>100%</b>	100%	Equity investment, and funds management	Ruihua

Apart from the subsidiaries, the Company has consolidated those structured entities which are controlled by the Company.

<sup>1</sup> The English translation of the names is for reference only. The official names of these entities are in Chinese.

<sup>2</sup> The Company injected capital of RMB97.75 million to New China Fund on 23 July 2015. The registration of the change in paid up capital and the renewal of the business license with the State Administration of Industry and Commerce were completed on 29 July 2015. As a result, New China Fund and its subsidiary became subsidiaries instead of the associates of the Company. On 28 September 2015, New China Fund was converted into a joint stock company with limited liability.

<sup>3</sup> The Company injected capital of RMB800 million to Hengtai Capital, and the registration of the change in paid up capital and the renewal of the business license with the State Administration of Industry and Commerce were completed on 29 January 2016. On 10 November 2016, Hengtai Capital increased its registered capital to RMB1,500 million and completed the renewal of the business license with the State Administration of Industry and Commerce. As at 31 December 2016, total capital of RMB1,200 million has been paid up by the Company.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 27. INTERESTS IN ASSOCIATES

	2016	2015
Share of net assets	<b>7,958</b>	10,000

Details of the Group's principal associate at 31 December 2016 are as follows:

Name	Place of incorporation/ registration	Issued and paid - up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Yifeng Internet Financial Information Services (Shanghai) Co., Ltd	Shanghai, PRC	Registered capital of RMB9.8 million	49%	Internet financial services

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2016	2015
<b>At 31 December:</b>		
Carrying amounts of interests	<b>7,958</b>	10,000
<b>Year ended 31 December:</b>		
Profits less losses from continuing operations	<b>(1,123)</b>	-
Other comprehensive income	-	-
Total comprehensive income	<b>(1,123)</b>	-

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
<b>Non-current</b>		
<b>At fair value:</b>		
Assets management schemes	1,584,590	1,764,004
Investment funds	8,230	–
Equity securities	795,045	412,318
Subtotal	<b>2,387,865</b>	2,176,322
<b>At cost:</b>		
Equity securities	11,000	11,000
Total	<b>2,398,865</b>	2,187,322
<b>Analysis into:</b>		
Listed outside Hong Kong	160,160	122,000
Unlisted	2,238,705	2,065,322
Total	<b>2,398,865</b>	2,187,322
<b>Current</b>		
<b>At fair value:</b>		
Debt securities	97,400	213,091
Assets management schemes	21,207	176,415
Investment funds	338,469	56,833
Equity securities	909,021	110,847
Total	<b>1,366,097</b>	557,186
<b>Analysis into:</b>		
Listed outside Hong Kong	989,681	252,718
Unlisted	376,416	304,468
Total	<b>1,366,097</b>	557,186

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 29. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### Analysis by collateral type:

	2016	2015
<b>Non-current</b>		
Equity securities	618,000	120,000
Less: Impairment	(3,090)	(600)
Subtotal	614,910	119,400
<b>Current</b>		
Debt securities	568,444	45,200
Equity securities	348,622	119,613
Less: Impairment	(1,743)	(598)
Subtotal	915,323	164,215
Total	<b>1,530,233</b>	<b>283,615</b>

#### Analysis by market:

	2016	2015
<b>Non-current</b>		
Shenzhen Stock Exchange	618,000	120,000
Less: Impairment	(3,090)	(600)
Subtotal	614,910	119,400
<b>Current</b>		
Shanghai Stock Exchange	765,592	54,430
Shenzhen Stock Exchange	151,463	110,383
Others	11	-
Less: Impairment	(1,743)	(598)
Subtotal	915,323	164,215
Total	<b>1,530,233</b>	<b>283,615</b>

As at 31 December 2016, the Group did not hold any collateral under resale agreements for which the Group was permitted to sell or repledge in the absence of default for the transactions (2015: Nil).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 30. REFUNDABLE DEPOSITS

	2016	2015
<b>Deposits with stock exchanges</b>		
China Securities Depository and Clearing Corporation Limited Shanghai Branch	<b>41,589</b>	69,322
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	<b>33,117</b>	51,132
China Securities Depository and Clearing Corporation Limited Beijing Branch	<b>1,218</b>	1,055
Subtotal	<b>75,924</b>	121,509
<b>Deposits with futures and commodity exchanges</b>		
China Financial Futures Exchange	<b>126,843</b>	–
Shanghai Futures Exchange	<b>83,975</b>	25,523
Dalian Commodity Exchange	<b>73,497</b>	25,499
Zhengzhou Commodity Exchange	<b>22,708</b>	17,400
Everbright Futures Co., Ltd	–	117,697
Subtotal	<b>307,023</b>	186,119
<b>Deposits with other institution</b>		
China Securities Finance Corporation Limited	<b>83,763</b>	567,787
Total	<b>466,710</b>	875,415

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 31. DEFERRED TAXATION

The components of deferred tax recognised in the consolidated statements of financial position and the movements during the year are as follows:

Deferred taxation arising from:	Note	Impairment losses	Employee benefit payables	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of available-for- sale financial assets	Others	Total
As at 1 January 2015		12,041	68,728	(50,462)	(85,000)	(34,971)	(89,664)
Acquisitions through business combination	59(b)	-	989	-	(729)	6,715	6,975
Recognised in profit or loss	16	6,140	104,719	(31,622)	-	26,384	105,621
Recognised in other comprehensive income		-	-	-	66,487	-	66,487
As at 31 December 2015		<u>18,181</u>	<u>174,436</u>	<u>(82,084)</u>	<u>(19,242)</u>	<u>(1,872)</u>	<u>89,419</u>
At 1 January 2016		<b>18,181</b>	<b>174,436</b>	<b>(82,084)</b>	<b>(19,242)</b>	<b>(1,872)</b>	<b>89,419</b>
Recognised in profit or loss	16	<b>1,248</b>	<b>(60,059)</b>	<b>42,498</b>	-	<b>25,618</b>	<b>9,305</b>
Recognised in other comprehensive income		-	-	-	<b>(9,874)</b>	-	<b>(9,874)</b>
As at 31 December 2016		<u><b>19,429</b></u>	<u><b>114,377</b></u>	<u><b>(39,586)</b></u>	<u><b>(29,116)</b></u>	<u><b>23,746</b></u>	<u><b>88,850</b></u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 31. DEFERRED TAXATION (Continued)

(a) Reconciliation to the consolidated statement of financial position

	2016	2015
Net deferred tax assets recognised in the consolidated statement of financial position	<b>90,192</b>	103,819
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>(1,342)</b>	(14,400)
Total	<b>88,850</b>	89,419

(b) Deferred tax assets not recognised

The Group has no material unrecognised deferred tax assets or liabilities as at 31 December 2016 (2015: Nil).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 32. OTHER NON-CURRENT ASSETS

	2016	2015
Leasehold improvements and long-term prepaid expenses ( <i>note</i> )	<b>37,411</b>	37,231
Long-term receivables	<b>8,301</b>	3,655
Investments classified as receivables	<b>140,300</b>	250,000
Total	<b>186,012</b>	290,886

*Note:*

The movements of leasehold improvements and long-term prepaid expenses are as below:

	2016	2015
At 1 January	<b>37,231</b>	35,195
Acquisitions through business combination	–	887
Transfer in	<b>183</b>	–
Additions	<b>20,978</b>	18,948
Amortisation	<b>(20,981)</b>	(17,799)
At 31 December	<b>37,411</b>	37,231

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 33. MARGIN ACCOUNT RECEIVABLES

	2016	2015
Individuals	<b>5,134,555</b>	6,211,371
Institutions	<b>39,386</b>	40,434
Less: Impairment	<b>(28,798)</b>	(34,473)
Total	<b>5,145,143</b>	6,217,332

The fair value of collaterals for margin financing and securities lending business is analysed as follows:

	2016	2015
Equity securities	<b>13,746,492</b>	16,386,686
Cash	<b>634,263</b>	948,970
Total	<b>14,380,755</b>	17,335,656

The Group evaluates the collectability of receivables from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin clients.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 34. OTHER CURRENT ASSETS

	2016	2015
Fees and commission receivables ( <i>note a</i> )	<b>123,029</b>	179,234
Interest receivables ( <i>note b</i> )	<b>294,053</b>	294,862
Prepaid expenses	<b>15,349</b>	21,624
Other receivables	<b>265,329</b>	144,042
Total	<b>697,760</b>	639,762

Notes:

#### (a) Fees and commission receivables

As at the end of the year, the ageing analysis of fees and commission receivables, based on the invoice date, is as follows:

	2016	2015
Within one year	<b>121,296</b>	177,775
Over one year	<b>1,733</b>	1,459
Total	<b>123,029</b>	179,234

#### (b) Interest receivables

	2016	2015
Available-for-sale financial assets	<b>2,528</b>	6,658
Financial assets at fair value through profit or loss	<b>195,798</b>	188,197
Margin financing and securities lending	<b>92,582</b>	95,813
Bank deposits	<b>4,607</b>	3,903
Financial assets held under resale agreements	<b>2,509</b>	666
Less: Impairment	<b>(3,971)</b>	(375)
Total	<b>294,053</b>	294,862

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
Held for trading:		
Debt securities	<b>5,997,671</b>	7,172,292
Equity securities	<b>497,691</b>	1,116,723
Investment funds	<b>1,717,960</b>	1,369,045
Assets management schemes	<b>1,008</b>	11,077
Financial assets designated at fair value through profit or loss:		
Debt securities	<b>108,605</b>	202,451
<b>Total</b>	<b>8,322,935</b>	9,871,588
<b>Analysis into:</b>		
Listed outside Hong Kong	<b>4,628,285</b>	5,233,790
Unlisted	<b>3,694,650</b>	4,637,798
<b>Total</b>	<b>8,322,935</b>	9,871,588

### 36. CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified their brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statement of financial position, and recognised the corresponding account payables to the respective brokerage clients on the grounds that the Group is liable for any loss or misappropriation of their brokerage clients' monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions in accordance with CSRC regulations.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 37. CLEARING SETTLEMENT FUNDS

	2016	2015
Deposits with stock exchanges		
China Securities Depository and Clearing Corporation Limited Shanghai Branch	<b>594,467</b>	479,553
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	<b>342,105</b>	321,677
China Securities Depository and Clearing Corporation Limited Beijing Branch	<b>106,808</b>	33,677
Deposits with futures and commodity exchanges	<b>66,571</b>	33,633
Total	<b>1,109,951</b>	868,540

The clearing settlement funds arising from consolidated assets management schemes are amounting to RMB32,378 thousand as at 31 December 2016 (2015: RMB57,602 thousand).

### 38. CASH AND BANK BALANCES

	2016	2015
Cash on hand	<b>119</b>	159
Bank balances	<b>3,206,336</b>	2,881,012
Total	<b>3,206,455</b>	2,881,171

The cash and bank balances arising from consolidated assets management schemes are amounting to RMB184,388 thousand as at 31 December 2016 (2015: RMB74,745 thousand).

Bank balances comprise time and demand deposits which bear interests at the prevailing market rates.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 39. CASH AND CASH EQUIVALENTS

	2016	2015
Cash on hand	119	159
Bank balances with original maturity within three months	2,986,336	2,746,013
Clearing settlement funds	1,109,951	868,540
Financial assets held under resale agreements with original maturity within three months	573,983	52,752
Less: restricted bank deposits	(131,188)	(98,038)
Total	<b>4,539,201</b>	3,569,426

### 40. DEBT INSTRUMENTS ISSUED

	2016	2015
Beneficiary certificates issued	2,832,624	2,172,553
Subordinated bonds issued	1,540,000	1,500,000
Short-term corporate bonds issued	300,000	1,000,000
Long-term corporate bond issued	1,500,000	–
Total	<b>6,172,624</b>	4,672,553
<b>Analysis by remaining maturity:</b>		
Within one year	3,132,624	2,043,460
Between one year and two years	–	1,129,093
Between two years and five years	3,040,000	1,500,000
Total	<b>6,172,624</b>	4,672,553

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 40. DEBT INSTRUMENTS ISSUED (Continued)

### Beneficiary certificates issued:

At 31 December 2016

Name	Par value	Issuance date	Due date	Interest rate	Par value			Accrued Interest	Book value as at 31 December 2016	
					As at 1 January 2016	Issuance	Redemption			
Hengfu No. 1	244,830	02/04/2015	21/09/2016	6.90%	244,830	-	(244,830)	-	-	
Hengfu No. 2	28,160	03/04/2015	21/09/2016	6.90%	28,160	-	(28,160)	-	-	
Hengfu No. 3	36,720	09/04/2015	28/09/2016	6.90%	36,720	-	(36,720)	-	-	
Hengfu No. 4	151,660	10/04/2015	28/09/2016	6.90%	151,660	-	(151,660)	-	-	
Hengfu No. 5	29,740	15/04/2015	11/10/2016	6.90%	29,740	-	(29,740)	-	-	
Hengfu No. 7	304,140	17/04/2015	11/10/2016	6.90%	304,140	-	(304,140)	-	-	
Hengfu No. 9	300,000	06/05/2015	04/05/2017	6.55%	300,000	-	-	300,000	32,624	
Hengfu No. 11	200,000	20/05/2015	07/11/2016	6.65%	200,000	-	(200,000)	-	-	
Hengfu No. 12	300,000	30/06/2015	29/06/2017	6.00%	300,000	-	(300,000)	-	-	
Hengfu No. 13	500,000	18/09/2015	18/09/2017	4.90%	500,000	-	(500,000)	-	-	
恒創泰富 No. 1	500,000	12/09/2016	13/03/2017	3.50%	-	500,000	-	500,000	-	
恒創泰富 No. 2	500,000	14/09/2016	15/03/2017	3.60%	-	500,000	-	500,000	-	
恒創泰富 No. 3	500,000	17/11/2016	17/11/2017	3.70%	-	500,000	-	500,000	-	
恒創泰富 No. 4	500,000	18/11/2016	17/11/2017	3.80%	-	500,000	-	500,000	-	
恒創泰富 No. 5	500,000	23/11/2016	23/11/2017	3.80%	-	500,000	-	500,000	-	
Total					2,095,250	2,500,000	(1,795,250)	2,800,000	32,624	2,832,624

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 40. DEBT INSTRUMENTS ISSUED (Continued)

#### Beneficiary certificates issued: (Continued)

At 31 December 2015

Name	Par value	Issuance date	Due date	Interest rate	Par value			Accrued Interest	Book value as at 31 December 2015	
					As at 1 January 2015	Issuance	Redemption			
Hengfu No. 1	244,830	02/04/2015	21/09/2016	6.90%	-	244,830	-	244,830	12,682	257,512
Hengfu No. 2	28,160	03/04/2015	21/09/2016	6.90%	-	28,160	-	28,160	1,456	29,616
Hengfu No. 3	36,720	09/04/2015	28/09/2016	6.90%	-	36,720	-	36,720	1,853	38,573
Hengfu No. 4	151,660	10/04/2015	28/09/2016	6.90%	-	151,660	-	151,660	7,626	159,286
Hengfu No. 5	29,740	15/04/2015	11/10/2016	6.90%	-	29,740	-	29,740	1,467	31,207
Hengfu No. 7	304,140	17/04/2015	11/10/2016	6.90%	-	304,140	-	304,140	14,891	319,031
Hengfu No. 8	200,000	22/04/2015	20/07/2016	7.10%	-	200,000	(200,000)	-	-	-
Hengfu No. 9	300,000	06/05/2015	04/05/2017	6.55%	-	300,000	-	300,000	12,921	312,921
Hengfu No. 11	200,000	20/05/2015	07/11/2016	6.65%	-	200,000	-	200,000	8,235	208,235
Hengfu No. 12	300,000	30/06/2015	29/06/2017	6.00%	-	300,000	-	300,000	9,123	309,123
Hengfu No. 13	500,000	18/09/2015	18/09/2017	4.90%	-	500,000	-	500,000	7,049	507,049
Total					-	2,295,250	(200,000)	2,095,250	77,303	2,172,553

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 40. DEBT INSTRUMENTS ISSUED (Continued)

#### Subordinated bonds issued:

At 31 December 2016

Name	Par value	Issuance date	Due date	Nominal interest rate	Book value	Book value	
					as at 1 January 2016	as at 31 December 2016	Issuance
14 恒泰債 (123321)	1,000,000	11/11/2014	11/11/2019 (with early redemption option on 11/11/2017)	6.90%	1,000,000	-	1,000,000
14 恒泰債 (123291)	300,000	16/12/2014	16/12/2019 (with early redemption option on 16/12/2017)	6.54%	300,000	-	300,000
14 恒泰債 (123262)	200,000	30/01/2015	30/01/2020 (with early redemption option on 30/01/2018)	6.70%	200,000	-	200,000
恒泰期貨股份有限公司次級債	40,000	15/08/2016	15/08/2020 (with early redemption option on 15/08/2018)	6.00%	-	40,000	40,000
Total					<u>1,500,000</u>	<u>40,000</u>	<u>1,540,000</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 40. DEBT INSTRUMENTS ISSUED (Continued)

#### Subordinated bonds issued: (Continued)

##### At 31 December 2015

Name	Par value	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2015	Issuance	Book value as at 31 December 2015
14 恒泰债 (123321)	1,000,000	11/11/2014	11/11/2019 (with early redemption option on 11/11/2017)	6.90%	1,000,000	-	1,000,000
14 恒泰债 (123291)	300,000	16/12/2014	16/12/2019 (with early redemption option on 16/12/2017)	6.54%	300,000	-	300,000
14 恒泰债 (123262)	200,000	30/01/2015	30/01/2020 (with early redemption option on 30/01/2018)	6.70%	-	200,000	200,000
Total					<u>1,300,000</u>	<u>200,000</u>	<u>1,500,000</u>

As approved by CSRC, the Company issued 5-year subordinated bonds with a nominal value of RMB1 billion on 11 November 2014, RMB300 million on 16 December 2014 and RMB200 million on 30 January 2015. These subordinated bonds were listed at Shanghai Stock Exchange.

As approved by CSRC, the Group issued 4-year subordinated bond with nominal value of RMB40 million on 15 August 2016. This subordinated bond was unlisted.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 40. DEBT INSTRUMENTS ISSUED (Continued)

#### Short-term corporate bonds issued:

##### At 31 December 2016

Name	Issuance date	Due date	Nominal interest rate	Book value	Issuance	Redemption	Book value
				as at 1 January 2016			as at 31 December 2016
恒泰短债D1	30/10/2015	28/10/2016	4.8%	500,000	-	(500,000)	-
恒泰短债D2	18/12/2015	16/12/2016	4.6%	500,000	-	(500,000)	-
恒泰短债D3	14/09/2016	14/09/2017	3.7%	-	300,000	-	300,000
Total				<u>1,000,000</u>	<u>300,000</u>	<u>(1,000,000)</u>	<u>300,000</u>

##### At 31 December 2015

Name	Issuance date	Due date	Nominal interest rate	Book value	Issuance	Book value
				as at 1 January 2015		as at 31 December 2015
恒泰短债D1	30/10/2015	28/10/2016	4.8%	-	500,000	500,000
恒泰短债D2	18/12/2015	16/12/2016	4.6%	-	500,000	500,000
Total				<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>

#### Long-term corporate bond issued:

##### At 31 December 2016

Name	Issuance date	Due date	Nominal interest rate	Book value	Issuance	Book value
				as at 1 January 2016		as at 31 December 2016
14 恒泰05 (136215)	29/1/2016	29/1/2019	3.42%	-	1,500,000	1,500,000

At 31 December 2015, there was no long-term corporate bond issued.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 41. PLACEMENTS FROM A FINANCIAL INSTITUTION

	2016	2015
Placements from China Securities Finance Corporation Limited	<b>900,000</b>	565,000

As at 31 December 2016, the placements from China Securities Finance Corporation Limited bear interests ranging from 3.0% to 3.2% (2015: 6.3%) per annum, with remaining maturities within 2 months and 3 months (2015: within 1 month and 4 months).

### 42. ACCOUNT PAYABLES TO BROKERAGE CLIENTS

	2016	2015
Clients' deposits for margin financing and securities lending	<b>655,309</b>	871,990
Clients' deposits for other brokerage business	<b>11,546,028</b>	13,105,568
Total	<b>12,201,337</b>	13,977,558

Account payables to brokerage clients represent the monies received from and repayable to brokerage clients. Account payables to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the account payables balances are repayable on demand except where certain account payables to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the amounts in excess of the required amount of margin deposits and cash collateral are repayable on demand.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 43. EMPLOYEE BENEFIT PAYABLES

	2016			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Short-term benefits	748,711	1,102,318	(1,336,165)	514,864
Defined contribution plans	724	48,626	(48,862)	488
Total	<b>749,435</b>	<b>1,150,944</b>	<b>(1,385,027)</b>	<b>515,352</b>

	2015				
	As at 1 January	Acquisitions through business combination (Note 59(b))	Accrued for the year	Payments made	As at 31 December
Short-term benefits	275,677	21,828	1,350,606	(899,400)	748,711
Defined contribution plans	227	291	33,598	(33,392)	724
Total	<b>275,904</b>	<b>22,119</b>	<b>1,384,204</b>	<b>(932,792)</b>	<b>749,435</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 44. OTHER CURRENT LIABILITIES

	2016	2015
Payables to other investors of consolidated structural entities	1,259,412	1,957,479
Payables to limited partners of consolidated limited partnerships	125,723	98,674
Other payables	159,578	280,701
Interest payables	114,802	59,265
Business tax and other tax payables	36,397	91,458
Total	<b>1,695,912</b>	<b>2,487,577</b>

### 45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

#### Analysis by collateral type:

	2016	2015
<b>Non-current</b>		
Equity securities	100,000	–
Rights and interests in margin financing	500,000	–
Subtotal	<b>600,000</b>	–
<b>Current</b>		
Debt securities	2,193,186	3,532,913
Rights and interests in margin financing	2,800,000	3,200,000
Subtotal	<b>4,993,186</b>	6,732,913
Total	<b>5,593,186</b>	6,732,913

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

#### Analysis by market:

	2016	2015
<b>Non-current</b>		
Bank and other financial institutions	<b>600,000</b>	–
<b>Current</b>		
Inter-bank market	<b>781,057</b>	2,208,013
Shanghai Stock Exchange	<b>1,063,800</b>	1,324,900
Shenzhen Stock Exchange	<b>348,329</b>	–
Bank and other financial institutions	<b>2,800,000</b>	3,200,000
Subtotal	<b>4,993,186</b>	6,732,913
Total	<b>5,593,186</b>	6,732,913

#### Analysis by transaction type:

	2016	2015
<b>Non-current</b>		
Pledged	<b>600,000</b>	–
<b>Current</b>		
Pledged	<b>4,588,869</b>	6,001,749
Sold	<b>404,317</b>	731,164
Subtotal	<b>4,993,186</b>	6,732,913
Total	<b>5,593,186</b>	6,732,913

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

As at 31 December 2016, the carrying amount of the financial assets at fair value through profit or loss, available-for-sale financial assets and margin account receivables that had been placed as financial assets sold under repurchase agreements of the Group are listed as below:

	<b>2016</b>	2015
Financial assets at fair value through profit or loss	<b>3,019,836</b>	3,898,614
Available-for-sale financial assets	<b>197,327</b>	50,722
Margin account receivables	<b>3,694,496</b>	3,941,468
Total	<b>6,911,659</b>	7,890,804

### 46. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>2016</b>	2015
Debt securities	-	22,276

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 47. SHARE CAPITAL AND SHARE PREMIUM

### (a) Share capital

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

At 1 January 2015	2,194,707
Issuance of H shares	409,860
	<hr/>
At 31 December 2015 and 31 December 2016	<u>2,604,567</u>

In October 2015, a total of 356,400,000 H shares with a par value of RMB1 each were issued by the Company at a subscription price of HKD3.92 per share, through the H share initial public offering to Hong Kong and overseas investors. In November 2015, a total of 53,460,000 H shares with a par value of RMB1 each were issued by the Company at a subscription price of HKD3.92 per share, as a result of the exercise of the over-allotment option.

### (b) Share premium

Share premium arising from the issuance of new shares at prices in excess of face value.

## 48. PERPETUAL CAPITAL SECURITIES

The Group issued a perpetual subordinated debt (the "Debt") with nominal value of RMB1,500 million on 29 June 2015. The Debt is undated and will carry a 6.80% coupon rate until the first redemption date on 29 June 2020. The coupon rate will be reset every five years if the Debt are not redeemed.

The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the Debt. The redemption of the Debt is solely at the discretion of the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 49. RESERVES

### (a) Surplus reserve

Under relevant PRC Laws, the Company and its subsidiaries in Mainland China are required to appropriate 10% of its net profit, as determined under the PRC Generally Accepted Accounting Principles (“PRC GAAP”), to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. Subject to the approval of shareholders, statutory surplus reserve may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

### (b) 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, the Company and its subsidiary, Hengtai Changcai, appropriate 10% of its annual net profit, as determined under PRC GAAP, to the general risk reserve.

In accordance with the requirements of the CSRC Interim Measures for Supervision and Administration on Risk Reserve for Public Securities Investment Fund Raising (Zhengjianhui Ling [No. 94]), the Group’s subsidiary, New China Fund, appropriate 10% its annual net profit, as determined under PRC GAAP, to the general risk reserve.

In accordance with the requirements of the Ministry of Finance Circular regarding the Issuance of Implementation Guidance on Financial Planning of Financial Institutions (Caijin [2007] No. 23) issued on 30 March 2007, the Group’s subsidiary, Hengtai Futures, appropriate 10% its annual net profit, as determined under PRC GAAP, to the general risk reserve.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 49. RESERVES (Continued)

### (c) 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 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company and its subsidiary, Hengtai Changcai, appropriate 10% from its annual net profit, as determined under PRC GAAP, to the transaction risk reserve.

### (d) Investment revaluation reserve

	2016	2015
As at 1 January	<b>54,324</b>	255,001
Change in fair value recognised in other comprehensive income	<b>92,950</b>	171,045
Less: deferred tax	<b>(23,238)</b>	(42,761)
Transfer to profit or loss upon disposal	<b>(48,914)</b>	(438,614)
Less: deferred tax	<b>12,228</b>	109,653
As at 31 December	<b>87,350</b>	54,324

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 50. MOVEMENT IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balance of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transaction risk reserve	Investment revaluation reserve	Share of other comprehensive income of associates	Retained profits	Total equity
As at 1 January 2015	2,194,707	813,953	-	243,383	309,649	297,443	392,599	567	991,381	5,243,682
Total comprehensive income for the year	-	-	-	-	-	-	(356,460)	294	1,824,292	1,468,126
Issuance of H shares	409,860	850,637	-	-	-	-	-	-	-	1,260,497
Issuance of perpetual capital securities	-	-	1,500,000	-	-	-	-	-	-	1,500,000
Appropriation to surplus reserve	-	-	-	182,429	-	-	-	-	(182,429)	-
Appropriation to general risk reserve	-	-	-	-	182,429	-	-	-	(182,429)	-
Appropriation to transaction risk reserve	-	-	-	-	-	182,429	-	-	(182,429)	-
Others	-	(3,354)	-	-	-	-	-	-	-	(3,354)
At 31 December 2015	<u>2,604,567</u>	<u>1,661,236</u>	<u>1,500,000</u>	<u>425,812</u>	<u>492,078</u>	<u>479,872</u>	<u>36,139</u>	<u>861</u>	<u>2,268,386</u>	<u>9,468,951</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 50. MOVEMENT IN COMPONENTS OF EQUITY (Continued)

	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transaction risk reserve	Investment revaluation reserve	Share of other comprehensive income of associates	Retained profits	Total equity
As at 1 January 2016	2,604,567	1,661,236	1,500,000	425,812	492,078	479,872	36,139	861	2,268,386	9,468,951
Total comprehensive income for the year	-	-	-	-	-	-	(5,848)	(861)	233,869	227,160
Dividend paid	-	-	-	-	-	-	-	-	(362,457)	(362,457)
Appropriation to surplus reserve	-	-	-	23,388	-	-	-	-	(23,388)	-
Appropriation to general risk reserve	-	-	-	-	23,388	-	-	-	(23,388)	-
Appropriation to transaction risk reserve	-	-	-	-	-	23,388	-	-	(23,388)	-
Others	-	4,000	-	-	-	-	-	-	-	4,000
At 31 December 2016	<u>2,604,567</u>	<u>1,665,236</u>	<u>1,500,000</u>	<u>449,200</u>	<u>515,466</u>	<u>503,260</u>	<u>30,291</u>	<u>-</u>	<u>2,069,634</u>	<u>9,337,654</u>

### 51. 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 51. TRANSFERRED FINANCIAL ASSETS (Continued)

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling, for which the customers provide the Group with collaterals that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised.

	2016		2015	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	399,510	404,317	833,495	731,164
Securities lending	348	-	43,211	-

### 52. COMMITMENTS

#### Capital commitments

Capital commitments outstanding at 31 December 2016 not provided for in the financial statements are as follows:

	2016	2015
Acquisition of property and equipment	373,950	407,858
Acquisition of intangible assets	12,219	15,000
Total	386,169	422,858

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 52. COMMITMENTS (Continued)

#### Lease commitments

The Group as lessee

As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
Within 1 year (inclusive)	<b>88,028</b>	46,178
1–2 years (inclusive)	<b>69,647</b>	26,184
2–3 years (inclusive)	<b>23,628</b>	17,669
After 3 years	<b>12,807</b>	13,275
Total	<b>194,110</b>	103,306

The Group as lessor

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016	2015
Within 1 year (inclusive)	<b>2,250</b>	2,295
1–2 years (inclusive)	<b>1,400</b>	2,250
2–3 years (inclusive)	<b>350</b>	1,750
Total	<b>4,000</b>	6,295

#### Underwriting commitments

According to the relevant underwriting agreements, underwriting commitments taken but not provided for by the Group as at 31 December 2016 are RMB29,870,000 thousand (2015: RMB13,260,000 thousand).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 53. INTERESTS IN STRUCTURED ENTITIES

#### (a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group mainly stand for the assets management schemes where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the assets management schemes to a level of such significance that it indicates that the Group is a principal.

As at 31 December 2016, the total assets of the consolidated assets management schemes are RMB2,251,828 thousand (2015: RMB3,072,935 thousand), and the carrying value of interests held by the Group in the consolidated assets management schemes are RMB250,594 thousand (2015: RMB261,729 thousand) and RMB98,892 thousand (2015: Nil), which are accounted for as available-for-sale financial assets and financial assets at fair value through profit or loss respectively in respective financial statements of the entities.

#### (b) Structured entities sponsored by third party institutions in which the Group holds an interest

The types of structured entities that the Group does not consolidate but in which it holds an interest include assets management schemes, trust schemes, wealth management products, investment funds and asset-backed securities products issued by banks and other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issuance of investment units to investors.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 53. INTERESTS IN STRUCTURED ENTITIES (Continued)

**(b) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)**

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at 31 December 2016, which are listed as below:

	2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Assets management schemes	1,574,689	–	1,574,689
Investment funds	100,421	1,282,613	1,383,034
Asset-backed securities products	–	142,128	142,128
<b>Total</b>	<b>1,675,110</b>	<b>1,424,741</b>	<b>3,099,851</b>

	2015		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Assets management schemes	1,891,858	11,077	1,902,935
Investment funds	–	954,474	954,474
Asset-backed securities products	–	372,620	372,620
<b>Total</b>	<b>1,891,858</b>	<b>1,338,171</b>	<b>3,230,029</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 53. INTERESTS IN STRUCTURED ENTITIES (Continued)

#### (c) Structured entities sponsored by the Group

Structured entities for which the Group served as general partner or manager, therefore has power over them during the year are assets management schemes and investment funds. Except for the structured entities that the Group has consolidated as set out in Note 53(a), the Group's exposure to the variable returns in the structured entities in which the Group has interest are not significant. The Group therefore did not consolidate these structured entities.

As at 31 December 2016, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB24,130,669 thousand (2015: RMB123,519,502 thousand).

The carrying amount of the investments held by the Group in these unconsolidated structured entities as at 31 December 2016 amounted to RMB831,147 thousand (2015: RMB519,965 thousand).

The fees receivables held by the Group in these unconsolidated structured entities as at 31 December 2016 amounted to RMB6,532 thousand (2015: RMB166,774 thousand).

### 54. CONTINGENT LIABILITIES

As at 31 December 2016, the Group is not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results, should unfavorable rulings have been handed down (2015: Nil).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 55. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Relationship of related parties

#### (i) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership as below.

	2016	2015
Baotou Huazi Industry Co., Ltd (“Baotou Huazi”)*	<b>11.83%</b>	11.83%
Beijing Qingyun Intercontinental Technology Co., Ltd	<b>8.71%</b>	8.71%
Beijing Financial Street Xihuan Properties Co., Ltd	<b>8.12%</b>	8.12%
Beijing Huijin Jiaye Investment Ltd	<b>7.92%</b>	7.92%
Beijing Financial Street Investment (Group) Co., Ltd	<b>6.35%</b>	6.35%
Beijing Huarong Infrastructure Investment Co., Ltd	<b>5.95%</b>	5.95%
Beijing Hongzhi Huitong Industrial Co., Ltd	<b>5.91%</b>	5.91%
Tibet Dazi Huifa Investment Co., Ltd**	<b>5.91%</b>	5.91%
Zhongchang Hengyuan Holding Co., Ltd (“Zhongchang Hengyuan”)*	<b>2.88%</b>	2.88%
Shanghai Yida Technology Investment Co., Ltd (“Shanghai Yida”)*	<b>2.33%</b>	2.33%

\* Baotou Huazi is held by Tomorrow Holding Limited Company (“Tomorrow Holding”) as to approximately 54.32%. Tomorrow Holding, Zhongchang Hengyuan and Shanghai Yida, being direct or indirect shareholders of the Company, entered into an acting-in-concert agreement. As at 31 December 2016, Baotou Huazi, Zhongchang Hengyuan and Shanghai Yida aggregately are interested in approximately 17.04% of the Company’s share capital.

\*\* Tibet Dazi Huifa Investment Co., Ltd, formerly named as Shenzhen Huifa Investment Co., Ltd, has renamed itself as Tibet Dazi Huifa Investment Co., Ltd on 18 July 2015.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 55. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

### (a) Relationship of related parties (Continued)

#### (ii) Subsidiaries of the Company

The detailed information of the Company's subsidiaries is set out in Note 26.

#### (iii) Associates

The detailed information of the Group's associates is set out in Note 27.

#### (iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the board of supervisors and senior management, and close family members of such individuals.

### (b) Related parties transactions and balances

#### (i) Transactions/balances between the Group and major shareholders:

	<b>2016</b>	2015
Balances at the end of the year		
Account payables to brokerage clients	<b>40,577</b>	6,227
	<b>2016</b>	2015
Transactions during the year		
Fees and commission income	<b>33</b>	598
Interest expenses	<b>302</b>	104
Rental expenses	<b>9,064</b>	8,739
Other operating expenses	<b>648</b>	637

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 55. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (b) Related parties transactions and balances (Continued)

(ii) Transactions between the Group and associates:

	2016	2015
Transactions during the year		
Fees and commission income	–	322

#### (c) Key management personnel remuneration

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.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 18 and certain of the highest paid employees as disclosed in Note 19, is as follows:

	2016	2015
Short-term benefits		
Fees, salaries, allowance and bonus	30,037	77,645
Post-employment benefit		
Contribution to pension schemes	602	601
Total	30,639	78,246

Total remuneration is included in 'staff costs' (see Note 12).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 55. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

### (d) Applicability of the listing rules related to connected transactions

The related party transactions in respect of rental expenses above constitute connected transactions as defined in Chapter 14A of the Listing Rules. Those transactions are complied with the disclosure requirements in accordance with Chapter 14A of the Main Board Listing Rules.

## 56. SEGMENT REPORTING

The Group manages and conducts its business activities by business segments. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following segments:

- (a) Brokerage and wealth management segment engages in the trading of stocks, funds, bonds and futures on behalf of the clients, and also providing investment and financing solutions to high-end, professional and institutional clients, including sale of financial products, margin financing and securities lending, securities-backed lending;
- (b) Investment banking segment provides corporate finance services, including financial advisory, equity underwriting and debt underwriting services as well as New Over-the-Counter Board-related services to institutional clients; Also, as chief agency broker, provides services to companies entering into National Equities Exchange and Quotations for share quotation and transfer;
- (c) Proprietary trading segment engages in trading of equities, bonds, funds, and derivatives for the Group;
- (d) Investment management segment includes businesses on assets management, private equity investments and alternative investments; and
- (e) Other segment mainly represents other operations of head office, including investments in associates, as well as interest income and interest expenses arising from general working capital.

Segment profit or loss represents the profit earned or loss incurred by each segment without the allocation of income tax expense and the share of profits less losses of its associates. Segment assets and liabilities are allocated to each segment, excluding deferred tax assets or liabilities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 56. SEGMENT REPORTING (Continued)

For the year ended 31 December 2016

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
Revenue						
– External	1,833,202	450,621	202,195	972,063	63,157	3,521,238
– Inter-segment	2,971	(2)	-	(2,969)	-	-
Other income and gains	3,241	50	17	7,705	8,904	19,917
Segment revenue and other income	1,839,414	450,669	202,212	976,799	72,061	3,541,155
Segment expenses	(1,410,774)	(330,992)	(287,568)	(691,310)	(176,811)	(2,897,455)
Segment operating profit/(loss)	428,640	119,677	(85,356)	285,489	(104,750)	643,700
Share of profits less losses of associates	-	-	-	-	(1,123)	(1,123)
Profit/(loss) before tax	428,640	119,677	(85,356)	285,489	(105,873)	642,577
Other segment information:						
Interest income	716,774	12,653	878	26,836	62,383	819,524
Interest expenses	(315,593)	-	(211,850)	(163,981)	-	(691,424)
Depreciation and amortisation	(58,793)	(2,270)	(281)	(14,675)	(5,305)	(81,324)
Impairment losses/(reversal of impairment losses)	1,349	(2,470)	-	(5,061)	-	(6,182)
Capital expenditure	79,034	849	189	12,660	64,809	157,541
At 31 December 2016						
Segment assets	20,002,565	466,842	8,057,724	6,106,667	2,424,606	37,058,404
Deferred tax assets						90,192
Total assets						37,148,596
Segment liabilities	19,073,049	97,154	5,056,544	2,733,173	251,129	27,211,049
Deferred tax liabilities						1,342
Total liabilities						27,212,391

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 56. SEGMENT REPORTING (Continued)

For the year ended 31 December 2015

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
Revenue						
– External	3,235,259	285,410	1,019,114	1,019,774	44,681	5,604,238
– Inter-segment	508	1,130	(20)	(33,046)	31,428	–
Other income and gains	2,131	2,289	–	13,223	54,309	71,952
Segment revenue and other income	3,237,898	288,829	1,019,094	999,951	130,418	5,676,190
Segment expenses	(1,946,035)	(220,310)	(205,403)	(703,946)	(417,692)	(3,493,386)
Segment operating profit/(loss)	1,291,863	68,519	813,691	296,005	(287,274)	2,182,804
Share of profits less losses of associates	–	–	–	–	12,466	12,466
Profit/(loss) before tax	1,291,863	68,519	813,691	296,005	(274,808)	2,195,270
Other segment information:						
Interest income	853,266	11,753	593	7,400	45,777	918,789
Interest expenses	(453,817)	–	(95,389)	(161,313)	(44,230)	(754,749)
Depreciation and amortisation	(47,251)	(2,473)	(236)	(8,126)	(5,652)	(63,738)
Impairment losses/(reversal of impairment losses)	(8,641)	(130)	–	(17,879)	–	(26,650)
Capital expenditure	124,137	407	79	11,427	97,844	233,894
At 31 December 2015						
Segment assets	22,360,187	404,979	7,442,517	6,309,959	2,546,212	39,063,854
Deferred tax assets						103,819
Total assets						39,167,673
Segment liabilities	20,046,858	82,222	4,404,052	3,346,651	1,540,458	29,420,241
Deferred tax liabilities						14,400
Total liabilities						29,434,641

The Company and its subsidiaries mainly operate in the PRC. The Group's operating assets are substantially situated in the PRC. As a result, no segment analysis based on geographical locations of the customers and assets is provided.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

During the year, the Group was exposed to three types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing and securities lending, securities-backed lending and stock repurchases; and (iii) risk of losses to the funds of the Company or customers arising from default of the financing party in innovative credit business.

The Group uses its risk management systems to monitor its credit risk on a real time basis, keep track of the credit risk of the Group's business products and its transaction counterparties, provide analyses and pre-warning reports, and adjust its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the year. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk. In respect of margin financing and securities lending, securities-backed lending and stock repurchases business, the Group evaluate the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending and stock repurchases business and promptly communicated with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence was performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### (a) Credit risk (Continued)

- (i) Maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

	2016	2015
Refundable deposits	466,710	875,415
Other current assets	682,411	618,138
Margin account receivables	5,145,143	6,217,332
Available-for-sale financial assets	97,400	213,091
Financial assets at fair value through profit of loss	6,106,276	7,417,954
Financial assets held under resale agreements	1,530,233	283,615
Clearing settlement funds	1,109,951	868,540
Cash held on behalf of brokerage clients	11,947,659	13,784,064
Bank balances	3,206,336	2,881,012
Total maximum credit risk exposure	<b>30,292,119</b>	33,159,161

- (ii) Risk concentrations

The Group's major credit exposures are with counterparties domiciled in the PRC as of 31 December 2016.

- (iii) Credit rating analysis of financial assets

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying value of debt securities at the end of the year are categorised by rating distribution as follows:

	2016	2015
Rating		
– AAA	871,868	1,651,319
– From AA- to AA+	3,652,800	3,441,785
– A-1	312,682	721,756
Subtotal	<b>4,837,350</b>	5,814,860
Non-rating	<b>1,366,326</b>	1,772,974
Total	<b>6,203,676</b>	7,587,834

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

#### (b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; (2) funding liquidity of being unable to meet financial obligations when they come due.

The following tables show the details of the remaining contractual maturities at the end of the year of the Group's non-derivative financial liabilities. Analysis of non-derivative financial liabilities are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the year) and the earliest date the Group can be required to pay:

	2016							Total
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	
Debt instruments issued	6,172,624	-	5,177	1,007,101	2,277,802	3,373,837	-	6,663,917
Placements from a financial institution	900,000	-	-	905,074	-	-	-	905,074
Account payables to brokerage clients	12,201,337	12,201,337	-	-	-	-	-	12,201,337
Other current liabilities	1,656,401	7,505	13,261	1,474,627	161,008	-	-	1,656,401
Financial assets sold under repurchase agreements	5,593,186	-	2,106,423	88,373	2,852,888	639,018	-	5,686,702
Total	26,523,548	12,208,842	2,124,861	3,475,175	5,291,698	4,012,855	-	27,113,431

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

#### (b) Liquidity risk (Continued)

	2015							Total
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	
Financial liabilities								
Debt instruments issued	4,672,553	-	1,101	-	2,216,517	3,044,224	-	5,261,842
Placements from a financial institution	565,000	-	-	560,501	9,116	-	-	569,617
Account payables to brokerage clients	13,977,558	13,977,558	-	-	-	-	-	13,977,558
Other current liabilities	2,393,710	86	27,147	294,485	2,071,992	-	-	2,393,710
Financial assets sold under repurchase agreements	6,732,913	-	3,635,912	637,391	2,534,007	-	-	6,807,310
Financial liabilities at fair value through profit or loss	22,276	-	22,276	-	-	-	-	22,276
Total	<u>28,364,010</u>	<u>13,977,644</u>	<u>3,686,436</u>	<u>1,492,377</u>	<u>6,831,632</u>	<u>3,044,224</u>	<u>-</u>	<u>29,032,313</u>

#### (c) Market risk

Market risk is the risk of loss, in respect of the Group's income and value of financial instruments held, arising from the adverse market movements such as changes in interest rates, stock prices, foreign exchange rates and so on. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximise the risk adjusted return. The Group monitors the market risk for proprietary trading portfolios. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### (c) Market risk (Continued)

#### (i) Interest rate risk of proprietary trading portfolios

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.

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of year, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net profit and net other comprehensive income. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit	
	2016	2015
Change in basis points		
Increase 100 basis points	(112,667)	(131,948)
Decrease 100 basis points	119,223	140,377
	Sensitivity of net other comprehensive income	
	2016	2015
Change in basis points		
Increase 100 basis points	(377)	(1,457)
Decrease 100 basis points	383	1,489

#### (ii) Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### (c) Market risk (Continued)

#### (ii) Currency risk (Continued)

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

#### (iii) Price risk

The Group is exposed to equity price changes arising from equity investments concluded in financial assets at fair value through profit or loss and available-for-sale financial instruments. Price risk the Group facing is mainly the proportionate fluctuation in the Group's net profits due to the price fluctuation of the held for trading financial instruments and the proportionate fluctuation in the Group's net other comprehensive income due to the price fluctuation of the available-for-sale financial instruments.

The analysis below is performed to show the impact on Group's net profit and net other comprehensive income due to change in the prices of equity securities by 10% with all other variables held constant.

	Sensitivity of net profit	
	2016	2015
Increase by 10%	166,249	187,263
Decrease by 10%	(166,249)	(187,263)

	Sensitivity of net other comprehensive income	
	2016	2015
Increase by 10%	275,067	189,856
Decrease by 10%	(275,067)	(189,856)

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### (d) Capital management

The Group's and the Company's objectives of capital management are:

- (i) To safeguard the Group's and the Company's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's and the Company's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC regulations.

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:

- (i) Risk coverage ratio (the ratio of net capital divided by the sum of its various risk capital provisions) shall be no less than 100% ("Ratio 1");
- (ii) Capital leverage ratio (the ratio of net core capital divided by total assets on and off statement of financial position) shall be no less than 8% ("Ratio 2");
- (iii) Liquidity coverage ratio (the ratio of high quality liquid assets divided by net cash outflows in the coming 30 days) shall be no less than 100% ("Ratio 3");
- (iv) Net stable funding ratio (the ratio of stable funds available divided by stable funds required) shall be no less than 100% ("Ratio 4");

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### (d) Capital management (Continued)

- (v) The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 5");
- (vi) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 6");
- (vii) The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 7");
- (viii) The ratio of the value of proprietary equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 8"); and
- (ix) The ratio of the value of proprietary non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 9").

Net capital refers to net assets after risk adjustments on certain types of assets as defined in the Administrative Measures.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 57. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

#### (d) Capital management (Continued)

As at 31 December 2016, the Company maintained the above ratios as follows:

	2016	2015
Net Capital	<b>6,865,531</b>	8,672,613
Ratio 1	<b>230.37%</b>	288.50%
Ratio 2	<b>22.89%</b>	28.06%
Ratio 3	<b>824.68%</b>	412.93%
Ratio 4	<b>131.44%</b>	160.46%
Ratio 5	<b>72.71%</b>	91.12%
Ratio 6	<b>53.95%</b>	69.89%
Ratio 7	<b>74.20%</b>	76.70%
Ratio 8	<b>40.09%</b>	30.48%
Ratio 9	<b>98.93%</b>	78.56%

The Administrative Measures was effective on 1 October 2016. The comparable net capital and ratios for the year ended 31 December 2015 were recalculated in accordance with the requirements of the Administrative Measures.

Similar to the Company, certain subsidiary of the Group is also subject to capital requirements set by the CSRC, and it has complied with the capital requirements as at 31 December 2016.

#### (e) Categories of financial instruments at 31 December 2016

	2016	2015
<b>Financial assets:</b>		
Financial assets at fair value through profit or loss		
– Held for trading	<b>8,214,330</b>	9,669,137
– Designated at fair value through profit or loss	<b>108,605</b>	202,451
Loans and receivables (including cash and cash equivalents)	<b>24,237,163</b>	25,781,930
Available-for-sale financial assets	<b>3,764,962</b>	2,744,508
<b>Financial liabilities:</b>		
Financial liabilities at fair value through profit or loss – held for trading	–	22,276
Financial liabilities at amortised cost	<b>26,523,548</b>	28,364,010

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from other financial institutions and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying values approximate the fair values.
- (ii) Financial assets at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active open markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.
- (iii) The fair values of debt instruments issued are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as credit risk and maturity, to estimate the fair values using pricing models or discounted cash flow.
- (iv) Margin account receivables and other current assets, account payables to brokerage clients are within one year. Accordingly, the carrying values approximate the fair values.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS (Continued)

The carrying amount and fair value of debt instruments issued which are not presented at fair value are listed as below:

#### Carrying amount

	2016	2015
Financial liabilities		
Subordinated bonds issued	1,540,000	1,500,000
Long-term corporate bond issued	1,500,000	–
Total	<b>3,040,000</b>	1,500,000

#### Fair value

	2016			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Subordinated bonds issued	–	1,526,545	40,000	1,566,545
Long-term corporate bond issued	–	1,482,153	–	1,482,153
Total	–	<b>3,008,698</b>	<b>40,000</b>	<b>3,048,698</b>

	2015			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Subordinated bonds issued	–	1,529,707	–	1,529,707

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS (Continued)

Except as disclosed above, the directors of the Company consider that the carrying amount of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December 2016:

	Fair value measurements as at 31 December 2016			
	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements:</b>				
Assets				
Financial assets at fair value				
through profit or loss				
– Debt securities for trading purpose	1,654,268	3,986,403	357,000	5,997,671
– Equity securities	262,323	180,744	54,624	497,691
– Investment funds	713,362	1,004,598	–	1,717,960
– Assets management schemes	–	1,008	–	1,008
– Debt securities designated at fair value through profit or loss	–	108,605	–	108,605
Subtotal	2,629,953	5,281,358	411,624	8,322,935
Available-for-sale financial assets				
– Debt securities	80,660	16,740	–	97,400
– Equity securities	735,748	292,533	675,785	1,704,066
– Investment funds	243,941	100,421	–	344,362
– Assets management schemes	–	1,608,134	–	1,608,134
Subtotal	1,060,349	2,017,828	675,785	3,753,962
Total	3,690,302	7,299,186	1,087,409	12,076,897

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December 2016: (Continued)

	Fair value measurements as at 31 December 2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities for trading purpose	360,178	6,563,164	248,950	7,172,292
– Equity securities	901,155	98,670	116,898	1,116,723
– Investment funds	1,369,045	–	–	1,369,045
– Assets management schemes	–	–	11,077	11,077
– Debt securities designated at fair value through profit or loss	–	72,451	130,000	202,451
<b>Subtotal</b>	<b>2,630,378</b>	<b>6,734,285</b>	<b>506,925</b>	<b>9,871,588</b>
Available-for-sale financial assets				
– Debt securities	45,755	167,336	–	213,091
– Equity securities	–	198,308	324,857	523,165
– Investment funds	56,833	–	–	56,833
– Assets management schemes	–	1,932,369	8,050	1,940,419
<b>Subtotal</b>	<b>102,588</b>	<b>2,298,013</b>	<b>332,907</b>	<b>2,733,508</b>
<b>Total</b>	<b>2,732,966</b>	<b>9,032,298</b>	<b>839,832</b>	<b>12,605,096</b>
Liabilities				
Financial liabilities at fair value through profit or loss	–	22,276	–	22,276

During the year ended 31 December 2016, there were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy (2015: Nil).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS (Continued)

(b) Reconciliation of financial assets measured at fair value based on Level 3:

Description	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Total
At 1 January 2016	506,925	332,907	839,832
Losses for the year	(3,806)	(4,000)	(7,806)
Changes in fair value recognised in other comprehensive income	–	(9,211)	(9,211)
Purchases	290,224	604,091	894,315
Sales and settlements	(381,719)	(248,002)	(629,721)
At 31 December 2016	<b>411,624</b>	<b>675,785</b>	<b>1,087,409</b>
Total gains or losses included in profit or loss for assets held at end of the year	–	(4,000)	(4,000)

Description	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Total
At 1 January 2015	180,200	137,225	317,425
Gains/(losses) for the year	5,061	(16,000)	(10,939)
Changes in fair value recognised in other comprehensive income	–	50	50
Purchases	471,664	264,857	736,521
Sales and settlements	(150,000)	(53,225)	(203,225)
At 31 December 2015	506,925	332,907	839,832
Total gains or losses included in profit or loss for assets held at end of the year	5,061	(16,000)	(10,939)

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 58. FAIR VALUE MEASUREMENTS (Continued)

### (b) Reconciliation of financial assets measured at fair value based on Level 3: (Continued)

The total gains or losses recognised in other comprehensive income are presented in fair value gain on available-for-sale financial assets in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of the year are presented in net investment income in the consolidated statement of profit or loss.

### (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group's financial market department is responsible for the fair value measurements of financial assets and liabilities required for financial reporting purposes, including Level 3 fair value measurements. The financial market department reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial market department and the Board of Directors periodically.

A majority of the financial assets at fair value through profit or loss classified as Level 2 consist of debt securities and bond investments trading in the inter-bank bond market and the over-the-counter market. Fair values are determined based on recent transaction prices in inactive markets and using valuation techniques.

A majority of the available-for-sale financial assets classified as Level 2 consist of restricted shares, close-end funds and collective assets management schemes. Fair values of restricted shares are determined by the quoted market prices of the shares with an adjustment of discount for lack of marketability. Fair values of close-end funds are determined by trading price which is based on the net asset value as at the reporting date. Fair values of collective assets management schemes are determined based on the fair value of the underlying investments in each portfolio.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 58. FAIR VALUE MEASUREMENTS (Continued)

(c) **Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016: (Continued)**

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement.

### Level 3 fair value measurements

#### At 31 December 2016:

<u>Description</u>	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Effect on fair value for increase of inputs</u>
Debt securities, private placements bonds	Discounted cash flows	Risk adjusted discount rates	Decrease
Unlisted equity investments	Market comparable companies	Discount rate for lack of marketability	Decrease
	Net assets value	N/A	N/A

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 58. FAIR VALUE MEASUREMENTS (Continued)

- (c) **Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016: (Continued)**

#### Level 3 fair value measurements (Continued)

At 31 December 2015:

<u>Description</u>	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Effect on fair value for increase of inputs</u>
Assets management schemes, private placements bonds, trust schemes	Discounted cash flows	Risk adjusted discount rates	Decrease
Unlisted equity investments	Market comparable companies	Discount rate for lack of marketability	Decrease

There were no changes in the valuation techniques used.

### 59. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

- (a) **Major non-cash transaction**

During the year, the Group disposed an available-for-sale finance asset, and the sales proceeds of RMB194,320 thousand had not been received at the end of the reporting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 59. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

#### (b) Business combination

On 29 July 2015, the Group acquired additional 14.87% equity interest in New China Fund which is engaged in funds management with a consideration of RMB97.75 million. As a result, the Company's interest in New China Fund increased to 58.62%, and New China Fund became a subsidiary controlled by the Company.

Details of consideration paid, fair value of the previously-held equity interest held at the acquisition date, and the goodwill recognised on the acquisition date were as follows:

	<b>Amount</b>
Cash consideration paid for the additional equity interest	97,750
Acquisition-date fair value of the previously-held interest	163,080
Total consideration for business combination	260,830
Less: Fair value of identifiable net assets acquired attributable to the shareholders of the Company	230,226
Goodwill	30,604

The goodwill is attributable to the economies of scale expected from combining the operations of the Group and the acquired businesses.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 59. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

#### (b) Business combination (Continued)

The recognised amounts of identified assets acquired and liabilities assumed as at the date of acquisition were as follows:

	<b>Amount</b>
Property and equipment	15,280
Intangible assets	8,645
Available-for-sale financial assets	52,919
Refundable deposits	10,200
Deferred tax assets	6,975
Other non-current assets	2,849
Other current assets	82,110
Cash and bank balances	351,532
Employee benefit payables	(22,119)
Other current liabilities	(78,108)
Current tax liabilities	(10,582)
Total identified net assets	419,701
Non-controlling interests recognised	26,958
Identified assets acquired and liabilities assumed attributable to the shareholders of the Company	392,743

The amount of non-controlling interest in the New China Fund recognised at the acquisition date is measured at fair value, which is derived from the fair value of New China Fund's identifiable net assets, evaluated by the appraiser using the cost methods.

The Group recognised a loss of RMB35,087 thousand as a result of measuring at fair value of its 43.75% equity interest in the New China Fund held before the business combination. The loss was reported as loss on measuring equity interest in associated companies held before business combination in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 59. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

#### (b) Business combination (Continued)

The analysis of the net outflow of cash and cash equivalent in respect of the business combination is as follows:

	<b>Amount</b>
Purchase consideration	97,750
Cash and cash equivalent	97,750
Net outflow of cash and cash equivalent in respect of business combination	97,750

### 60. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of the consolidated financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</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 IAS 7	Disclosure Initiative <sup>3</sup>
Amendments to IAS 12	Recognition of Deferred Tax Asset for Unrealised Losses <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 60. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following:

#### **IFRS 9 Financial instruments**

The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

### 60. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

#### IFRS 9 Financial instruments (Continued)

IFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in IAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in IAS 39 are carried forward largely unchanged.

IFRS 9 substantially overhauls the hedge accounting requirements in IAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

## 60. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

### IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's office and branch property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in Note 52, the Group's future minimum lease payments under non-cancellable operating leases for its office and branch properties amounted to RMB194,110 thousand as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in IFRS 16 and the effects of discounting.

## 61. EVENTS AFTER THE REPORTING PERIOD

On 13 February 2017, Hengtai Pioneer entered into a letter of intent to dispose 70% equity interests of its wholly-owned subsidiary, Beijing Hengtai Puhui Information Service Co., Ltd. (北京恒泰普惠信息服務有限公司), at a consideration not exceeding RMB19,000 thousand. Up to the date of this report, the transaction has not yet been completed.